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MANITOBA PUBLIC UTILITIES BOARD

Re: 2005 MANITOBA PUBLIC INSURANCE
RATE APPLICATION

Before Board Panel:
Graham Lane - Board Chairman
Denyse Cote - Board Member
Eric Jorgensen - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 15th, 2004

Pages 419 to 628

APPEARANCES

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25

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

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Mr. McCulloch, you have some undertakings and pre-asks to
5 provide?

6 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman.
7 First of all I'd like to deal with the eleven (11) pre-asks
8 filed by CMG -- CMMG. We have responses to all eleven (11)
9 in a package and I'd ask that they be filed as an exhibit.

10 THE CHAIRPERSON: Thank you. Mr. Barron, do
11 you have a number for it?

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: Okay, it's just supplements
16 to 4, then.

17

18 --- EXHIBIT NO. MPI-4 Additional:

19 Package of responses to eleven (11) pre-asks.

20

21 THE CHAIRPERSON: Okay, Mr. McCulloch,
22 anything else?

23 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman. The
24 second item deals with what's recorded in the transcript as -
25 - as two (2) undertakings dealing with the asset study in

1 connection with the investment portfolio.

2 And as the undertakings were recorded, one (1)
3 was that the Corporation would consider providing the Mercier
4 report to PUB on a confidential basis. And the second one
5 was that we -- the Corporation would provide a summary of
6 recommendations made by Merciers in their last review of the
7 MPI Investment Strategy.

8 Having consulted with Merciers and determined
9 that there is no proprietary concern on their part, what we
10 have done in response to these undertakings is first of all,
11 filed the full report prepared by Merciers. And the second
12 part of the filing is the Executive Summary or -- or the
13 praecipe of -- of the Mercier's report that was filed with
14 the MPI Board.

15 So I would file that as an MPI exhibit and I
16 would also ask that Mr. Galenzoski be allowed to make some
17 respondatory (phonetic) comment to the Board.

18 THE CHAIRPERSON: Yes, that will be MPI
19 Number 6 and we would be happy to hear from Mr. Galenzoski.

20

21 --- EXHIBIT NO. MPI-6: Mercier Report

22

23 MR. BARRY GALENZOSKI: Yes, primarily I just
24 wanted to point out the reason for the two (2) different
25 reports; one (1) being the full report and the other being

1 the -- the summary, which was provided and that our Board had
2 reviewed those over a couple of meetings. This is our
3 Investment Committee of -- of the Board and that of their
4 March 24th meeting, it was decided to retain our existing
5 asset mix rather than move to the asset mix being recommended
6 by -- by Merciers.

7 And the main reason for doing that -- if I
8 might just take a moment and ask you to go to Attachment 2 --
9 and of -- of that attachment, if you looked at page number
10 11. So, it's the smaller of the two (2) attachments,
11 Attachment 2, page number 11.

12 And there's a -- there's a table there that --
13 that lays out the -- this is the consultant's view of the one
14 (1) year, three (3) year return, and eight (8) year returns,
15 under the various scenarios that were being looked at in the
16 report. There was mixes one (1) to six (6), plus the
17 Corporation's current policy.

18 And the reason there's two (2) there for the
19 Corporation is that because we had not put more money into
20 the US equities, that we were slightly different to the --
21 the actual mix that we were currently using, compared to the
22 policy that we have.

23 And if you look at the mix four (4) was the
24 one (1) that was recommended by the -- the consultant. And
25 the one (1) year returns, they show an expected return of 3.5

1 percent. And when you look at the current mix that the
2 Corporation has, as well as current policy, you'll see that
3 it's 5 percent and 2.6 percent respectively.

4 When we look out at the three (3) year return,
5 the mix four (4) shows 4.7 percent return, whereas the
6 current policy shows 4.7 percent and the current mix shows
7 6.2 percent.

8 And then when we look at an expected eight (8)
9 year return, you'll see that there's not much difference
10 among the three (3) choices, being mix four (4) at 9.8
11 percent, current policy at 10 percent, and current mix at 9.9
12 percent.

13 So when the Investment Committee reviewed
14 this, it was decided not to make any changes, in other words,
15 not to -- to go to the recommendation that the consultant put
16 forward. We've primarily recommended putting some EAFE into
17 the -- into the portfolio as well as some real estate, to get
18 some -- a spread of risk, but it wasn't going to provide any
19 additional expected results, as far as return.

20 And on that basis, the Board decided not to
21 proceed into these other asset classes.

22 THE CHAIRPERSON: Mr. Galenzoski, would the
23 consultants not be looking out where this report is
24 historical?

25 MR. BARRY GALENZOSKI: Well, this is

1 historical obviously, but this was the basis of their
2 recommendation, and the only way they can predict is by
3 looking backwards. And you know, they -- this is the basis
4 of all these reports done, based on that -- on that scenario.

5 THE CHAIRPERSON: Anything further, Mr.
6 McCulloch?

7 MR. KEVIN McCULLOCH: No, Mr. Chairman.

8 THE CHAIRPERSON: Back to you, Mr.
9 Saranchuk...?

10 MR. WALTER SARANCHUK: Thank you, sir.

11

12 CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

13 MR. WALTER SARANCHUK: This morning we will
14 begin with claims cost control initiatives, and these are
15 dealt with in Volume I at SM-5.3 and 5.4.

16

17 (BRIEF PAUSE)

18

19 MR. WALTER SARANCHUK: Volume I.

20

21 (BRIEF PAUSE)

22

23 MR. WALTER SARANCHUK: Now, it's apparent --
24 and I take it this is something you'll be answering, Mr.
25 Bedard. It's apparent that the cost control initiatives of

1 the Corporation are for both bodily injury and all perils
2 coverage, is that correct?

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

4 MR. WALTER SARANCHUK: And the all perils
5 coverage, in general, applies to what? Everything other than
6 bodily injury?

7 MR. WILF BEDARD: Essentially all perils
8 refers to everything other than the PIPP program, yes.

9 MR. WALTER SARANCHUK: And under the bodily
10 injury claims costs savings initiative, dealt with at SM-5.3,
11 as I understand it, there are five (5) initiatives?

12 MR. WILF BEDARD: There are five (5) here,
13 yes.

14 MR. WALTER SARANCHUK: And in terms of the
15 objectives and the costs, or emphasis on any particular
16 initiative, has there been any change from last year, in
17 terms of the Corporation's approach, generally?

18 MR. WILF BEDARD: No, our -- our approach is
19 to provide good quality service, understanding the needs of
20 the customers, ensuring that they get adequate care and
21 attention on the injury side. But also keeping in mind, that
22 we have to keep things within limits, in terms of cost
23 control and what normal treatment methodologies would be and
24 what not.

25 So we're constantly looking at that balance

1 and trying to ensure that we're providing good customer
2 service and good cost consciousness if you will.

3 MR. WALTER SARANCHUK: Is the corporation
4 doing anything internally to try to maximize the cost savings
5 or are they planning to? Is this something that's always
6 under the microscope so to speak?

7 MR. WILF BEDARD: It's something that is
8 always under the microscope. We have a number of planning
9 sessions within the claims division on an annual basis and
10 one of the things we're always reviewing is our cost
11 experience and our cost control initiatives and modifications
12 are made where we feel necessary.

13 MR. WALTER SARANCHUK: So in terms of the
14 review and the cost of monitoring of the situation, you have
15 some sub-committees or committees within your department?
16 Can you just give us the makeup?

17 MR. WILF BEDARD: Yes, I have a director of
18 bodily injury who looks after all of the -- the operations on
19 the -- the injury side. Both the in province PIPP and the
20 out of province PIPP and no-fault claims that are
21 experienced. I also have a director of physical damage as
22 well who oversees all of the operations on a physical damage
23 side.

24 I also have a director of -- of physical
25 damage from an operational perspective who looks after all of

1 the claim centre operations around the province. And
2 essentially it's them along with myself who review these
3 initiatives, review our cost experience and as I said, make
4 modifications as we feel necessary.

5 MR. WALTER SARANCHUK: Thank you, sir.
6 Dealing firstly with the first initiative under the bodily
7 injury claims costs savings section in SM-5.3, that's the
8 heading of Practitioner Education and Liaison.

9 As it appears the healthcare services team
10 continues to be involved in Practitioner Education and
11 Liaison in co-operation with the Workers' Compensation Board
12 at hospitals, clinics, and other facilities throughout
13 Manitoba, what is the healthcare services team? And perhaps
14 you can then elaborate on what is in that paragraph.

15 MR. WILF BEDARD: Yes, the healthcare
16 services team is a group of physicians and -- and
17 chiropractor consultants that we have at MPI. It's made up
18 of all part-time physicians, people in the medical profession
19 who give part of their work week to assist case managers and
20 reviewing complex cases and providing guidance and
21 recommendations in terms of how to best manage the case and
22 best care for the needs of the patient.

23 MR. WALTER SARANCHUK: And perhaps you can
24 elaborate on the co-operation that you experience with the
25 Workers' Compensation Board in bringing about the results

1 that you're looking for?

2 MR. WILF BEDARD: Certainly. It -- it's felt
3 that there's not enough emphasis in the medical profession.
4 The opinion of our healthcare services people on -- on
5 managing soft tissue injury the vast majority of our cases
6 are soft tissue type injuries.

7 And we feel that there's more need for
8 education and awareness in the medical community on how best
9 to manage and treat those types of -- of losses. Looking
10 towards maximizing the person's quick return to normal
11 activity minimizing dependency on medications and -- and
12 treatment, that sort of thing.

13 So the practitioners that we have in our
14 healthcare services team, along with those needs of the
15 Workers' Compensation go out to various clinics and hospitals
16 talking to different groups on how to best manage these types
17 of losses citing the best literature that they know is
18 available within -- in the medical profession.

19 And basically, heighten sort of education
20 awareness and dialogue on how to best manage cases like this.

21 MR. WALTER SARANCHUK: And where does the
22 Workers' Compensation Board come into play?

23 MR. WILF BEDARD: A number of the medical
24 professionals that work in our healthcare services team also
25 contract out with Workers' Compensation. So they work for

1 both periodically and there's a lot of joint educational
2 initiatives that are supported both by the Workers'
3 Compensation and MPI, delivered by these individuals.

4 MR. WALTER SARANCHUK: Now is there
5 consultation between the corporation and the Workers'
6 Compensation Board in other respects, insofar as claims
7 handling goes?

8 MR. WILF BEDARD: Well, certainly the
9 individuals at MPI who are involved in the day to day
10 operations of injury management do have regular contacts with
11 the Workers' Compensation. They share dialogue, they share
12 the manners in how they deal with -- with certain issues.

13 MR. WALTER SARANCHUK: Can you give us an
14 example?

15 MR. WILF BEDARD: Basically dealing with --
16 like chronic pain cases, those types of -- of situations. We
17 share dialogue on status of negotiations in dealing with the
18 various service providers: physiotherapists, chiropractors
19 and whatnot.

20 There is open dialogue on claims processing,
21 in terms of how they manage certain procedures within their
22 organization. But there are not a lot of initiatives that we
23 -- that we jointly collaborate with. There's a lot of open
24 dialogue in a -- in a relaxed form, but not a lot of formal
25 initiatives that we participate in jointly.

1 MR. WALTER SARANCHUK: Has there been any
2 consideration given to expanding the consultations and the
3 dialogue, if you will? Has anybody from the Department of
4 Health, for example, or for example, from the Corporation or
5 from the Workers' Compensation Board ventured the thought
6 that perhaps it might be beneficial to both Crown entities to
7 expand their consultations?

8 MR. WILF BEDARD: A number of months ago, the
9 President and CEO of the Worker's Compensation did meet with
10 our President, Mr. Zacharias, at the time, and talked about
11 those very issues, that we would try and work more closely
12 together on -- on a collaborative basis and maybe look at
13 synergies and joint initiatives and I believe the outcome of
14 that was that that was something that both organizations
15 would work towards in the future.

16 MR. WALTER SARANCHUK: And do you see, or do
17 you foresee that there will be some definitive steps taken in
18 that respect in the near future and if so, when?

19 MR. WILF BEDARD: Well, I've not had an
20 opportunity to talk with Ms. McLaren, our new CEO, on the
21 subject, but I'm sure that those discussions will take place
22 in due course and if there are some opportunities there I'm
23 sure we will pursue them.

24 MR. WALTER SARANCHUK: Can you give us any
25 indication of which way you're leaning there, Ms. McLaren?

1 MS. MARILYN MCLAREN: I think it's really
2 essential that we find as much synergy as possible with
3 sister auto insurance crowns, with other organizations within
4 Manitoba. I think those discussions need to happen with some
5 intensity, periodically as the business and as circumstances
6 change.

7 I think at the -- the core of the issue with
8 respect to Worker's Comp and Manitoba Public Insurance, the -
9 - the nature of the injuries is not as similar as you might
10 think on the surface. You know, they tend to have a lot of
11 back injuries; we don't. We have a lot of neck injuries.

12 So, I think on the surface where there may
13 seem like there should be a lot of synergies with respect to
14 the treatment of injuries, when you get down to that detailed
15 level, there may not be as much similarities as it would seem
16 on the surface. But do I think we need to consult and -- and
17 identify a potential opportunity? Absolutely.

18 MR. WALTER SARANCHUK: And do you see that
19 being pursued in the near future?

20 MS. MARILYN MCLAREN: Well, I think that we
21 certainly need to follow up on the initiatives shown by the
22 CEO of Workers' Comp, for sure, in the short term.

23 MR. WALTER SARANCHUK: Thank you. I take it
24 then that you share the -- for lack of a better term --
25 enthusiasm of your predecessor in that regard?

1 MS. MARILYN MCLAREN: Yes.

2 MR. WALTER SARANCHUK: Thank you. At Section
3 SM-5.3(b) in Volume I, Mr. Bedard -- excuse me -- there's
4 reference made to the agreement with the Physiotherapy
5 Alliance of Manitoba that expired, actually, at the end of
6 December of last year.

7 Can you give us an update on the status of the
8 negotiations there?

9 MR. WILF BEDARD: Yes, certainly. The -- we
10 have been in continual contact with the representatives of
11 the Alliance -- the Physiotherapy Alliance. They have
12 submitted a proposal to us, which really addresses all of the
13 concerns and issues that we've needed to discuss beyond just
14 the fee associated with their treatment. Ad we will be
15 reviewing that -- Marilyn and I will be reviewing that --
16 hopefully next week and getting back to the Association in
17 terms of the Corporation's response.

18 So -- and I really believe that, although the
19 existing contract has expired last December of '03, we will
20 be in a position, hopefully within the next few weeks, of
21 ratifying a new agreement with them.

22 MR. WALTER SARANCHUK: So the issue isn't
23 money?

24 MR. WILF BEDARD: Well, money is always an
25 issue, but there are other issues regarding treatment

1 modalities, frequency, duration, those types of things --
2 standards of -- of -- of clinics and whatnot. Those types of
3 issues need to be discussed and debated and agreed upon as
4 well, it's not just purely negotiating a fee for service.

5 MR. WALTER SARANCHUK: And in that same
6 section, SM-5.3(b), there's mention made of the fact that the
7 Corporation, at least at the time of the filing, is still in
8 the process of negotiating with the Chiropractor's
9 Association, how are you getting along there?

10 Are you getting -- are you getting along?

11 MR. WILF BEDARD: I was about to say, quite
12 frankly, not very well. There are issues regarding frequency
13 and duration primarily. By that I mean how long do you treat
14 an individual and how often do you treat an individual over a
15 period of time that we are at loggerheads on.

16 There's not really any agreement that we can
17 make with the Association. Even members of the Association
18 can't agree on what that ought to be. And as a result,
19 negotiations have stalled, there have not been active
20 discussions for a number of months now. And as I understand
21 it, the -- the ball is in their Court.

22 There was a representative of the Association
23 here earlier this week, and acknowledging that the ball was
24 in their Court and they were hoping to have some formal to
25 present to the Corporation at some time in the future.

1 But currently there has been no dialogue for
2 the last number of months, as I said.

3 MR. WALTER SARANCHUK: Just to finish up on
4 the actual terms of the agreement, and I understand that
5 these are under the process of negotiation. But is it a
6 question of the Chiropractor's Association suggesting, for
7 example, that there should be so many manipulations for a
8 certain type of whiplash injury, and the MPI saying, well,
9 wait a second, maybe that should be reviewed, or something
10 along that line?

11 MR. WILF BEDARD: Yes, essentially that's it.
12 We're trying to get some fence around our costing in this
13 area, and to that end we -- we want to have some
14 understanding and agreement in terms of how often and for
15 what period of time they would treat an individual. I think
16 that's important from not only our perspective, but the
17 perspective of the -- the patient as well.

18 And essentially we are trying to agree on --
19 on those -- those issues. They've been outstanding issues
20 for quite some time, and we continue to work towards trying
21 to find common solutions. There have been a number of
22 remedies presented by both parties over the past number of
23 years, in terms of resolving this, but nothing has been
24 agreed upon to this point.

25 MR. WALTER SARANCHUK: But in any event, I'm

1 assuming that along -- dealing with that kind of a topic, the
2 ultimate decision is to be made by whom, the Corporation?

3 MR. WILF BEDARD: Well, we -- we want to --
4 to create a business relationship with this important
5 business partner of ours, in caring for our patients. That
6 is something that we can all agree with and is beneficial to
7 the individual. That's really our -- our primary goal.

8 So, we're looking at the patient's interest at
9 -- at heart here, we're wanting to make sure that people do
10 not depend on -- on treatment, that perhaps may not be doing
11 any good for them, and -- and may be causing some harm.

12 And we want to make sure that if a particular
13 modality isn't working for them, that there's options
14 available. That we just don't continue doing something over
15 and over and over again, over long periods of time, with
16 perhaps dependency, chronicity working into the situation, a
17 person relying on that treatment and maybe not being of any
18 benefit to them at all.

19 And again, costing the premium payers, you
20 know, money in -- as well. And so we're -- we're trying to
21 find a way of agreeing to an effective treatment modality
22 that works for all concerned.

23 MR. WALTER SARANCHUK: Thank you, sir. In
24 SM-5.3(c) under the heading of "Case management Triaging and
25 consolidation in the --"

1 THE CHAIRPERSON: Mr. Saranchuk --

2 MR. WALTER SARANCHUK: Sorry --

3 THE CHAIRPERSON: -- if I could -- just one
4 (1) question. Mr. Bedard, does the Corporation take a
5 position with respect to that ongoing issue of neck
6 manipulations, with respect to practice guidelines?

7 MR. WILF BEDARD: No, we don't really have
8 any -- any formal position on that. We do allow the
9 practitioners to advise us on what their best treatment plan
10 is for a particular individual.

11 We do have chiropractic consultants in our
12 healthcare services team, that evaluate those cases that we
13 believe are questionable, and we're guided by -- by their
14 opinion.

15 At times those consultants will discuss a
16 particular case with the clinician on record to make sure
17 that we're comfortable with what is going on. That's
18 essentially how we deal with those types of issues.

19 THE CHAIRPERSON: Do you think you have any
20 potential liability with respect to that issue?

21

22 (BRIEF PAUSE)

23

24 MR. WILF BEDARD: Unlike the Workers'
25 Compensation, MPI does not medically manage a particular

1 case. We do not direct people to any particular treatment
2 modality or frequency and duration. That is purely up to --
3 up to them to decide where they're going to go and to deal
4 with their clinician in terms of the treatment that they
5 encounter.

6 THE CHAIRPERSON: Thank you, Mr. Bedard.

7 MS. DENYSE COTE: I would like to ask just --
8 how long has it been since you've had an agreement in place
9 with -- like this is you're trying to negotiate a new
10 agreement with the Chiropractor's Association? When was the
11 last -- like when did the last one expire?

12 MR. WILF BEDARD: Some time ago. I believe
13 it was the December of 2001. Having said that though, the
14 terms and conditions of -- of that old agreement are still in
15 place. It's not like the chiropractic membership are
16 refusing to treat people or billing our customers or over-
17 billing us or that type of thing.

18 The relationship is -- is a positive one
19 still. Both sides are adhering to the terms and conditions
20 of that -- of that agreement. So we -- we still have an
21 agreement in place, it's just an expired agreement that both
22 parties are -- are continuing to -- to honour and recognize.

23 There is -- is nothing adverse about the
24 relationship on an ongoing basis and the -- the patient
25 certainly isn't, you know, being penalized because of the

1 lack of any formal agreement that we have with -- with the
2 Chiropractic Association.

3 MR. WALTER SARANCHUK: Well, just picking up
4 on that answer, Mr. Bedard, I thought you said you really
5 weren't getting along.

6 MR. WILF BEDARD: At the negotiating table,
7 we're not getting along. Absolutely not. There are very
8 firm differences of opinion there. But in terms of the
9 relationship with us on individual case management cases and
10 dealing with patients, that relationship is -- is still
11 intact, solid, and not adverse to any party.

12 MR. WALTER SARANCHUK: Thank you, sir.
13 Dealing with the information provided in SM-5.3(c) in Volume
14 1 which is under the heading of Case Management Triaging and
15 Consolidation. There's reference to the Medex (phonetic)
16 department in the second paragraph and that the corporation
17 is now in the process of consolidating the mature long term
18 disability and impairment files within the Medex department.

19 What is the medics department and perhaps you
20 can just elaborate on what is contained in that paragraph?

21 MR. WILF BEDARD: Certainly. The Medex
22 department is a department of case managers and -- and
23 clerical support who manage all of what we would consider the
24 more minor injury losses.

25 Usually where there is not an income

1 replacement indemnity involved. There's no disability.
2 Basically we're dealing largely with soft tissue injuries
3 where medical expense, monitoring and -- and treatment is --
4 is taking place, nothing much beyond that.

5 And we have centralized all the type of losses
6 that falls in that category around the province into one (1)
7 department, being the Medex department.

8 What we have done recently is taken all of our
9 matured long term disability cases, i.e., cases where
10 individuals have demonstrated they have little to no ability
11 to return to the workplace. And it's just a matter of
12 monitoring their treatment, monitoring their activity and
13 continuing the stream of -- of benefit entitlements to them.

14 Also cases where we have outstanding
15 impairments, often times it takes some time for the
16 determination of an impairment to be established. For
17 example, perhaps a serious leg fracture or scarring, that
18 takes time to heal and resolve to know where the permanent
19 impairment is, those types of files have -- also been
20 transferred into the Medex department as well.

21 The whole idea is, is that we don't want our
22 -- our senior field case managers bogged down with a lot of
23 minor losses and losses that will just clog up their time and
24 their case load. We're giving those to -- to the Medex
25 department to -- to manage.

1 MR. WALTER SARANCHUK: What do you mean when
2 you say that you're expanding the practice of assigning
3 specific case managers to deal with all claims arising from a
4 specific employer or institution?

5 MR. WILF BEDARD: There are a number of large
6 employers and institutions that -- we have a number of
7 injured, you know, claimants that -- that come to us, not
8 being able to -- to return to work. Cases like CN, Health
9 Sciences Centre -- large institutions that have a lot of
10 employees.

11 We find it more beneficial to take all of
12 those -- those cases -- if a person is employed at the Health
13 Sciences, for example -- and have them all managed by one (1)
14 case manager. Where they understand the -- the organization,
15 understand how the -- the institution manages disability
16 benefits, sick leave benefits, calculate their entitlements,
17 modify them against the PIPP benefits, those types of things.

18 Rather than having a dozen or two (2) of our
19 case managers dealing with those institutions, we find that
20 it's better for ourselves and the organization and -- and the
21 injured individuals to have those centralized with one (1)
22 Case Manager. And we're -- we're starting to move more and
23 more towards that once we see the benefits.

24 MR. WALTER SARANCHUK: And in that same
25 section of SM-5.3(c) in the third paragraph, there's mention

1 of a multi-discipline -- disciplinary team being created to
2 re-evaluate files where rehabilitation efforts have been
3 unsuccessful to-date to ensure that everything possible is
4 done to maximize resumption of normal activity.

5 What can you tell us about the multiple-
6 disciplinary team in terms of the number and the makeup and
7 explain that sentence, please?

8 MR. WILF BEDARD: Certainly. This is a new
9 initiative that we've just been working on. It -- it isn't
10 set up yet.

11 What we're really looking at here is after ten
12 (10) years of -- of having the no-fault system in place, we
13 have a number of people who, perhaps, it appeared on the
14 surface shortly after the accident, that they had a minor
15 soft tissue injury that's really manifested itself into their
16 inability to return to their previous employment, inability
17 to deal with any work hardening that we would do with them,
18 returning to any form of -- of employment.

19 Our rehabilitation efforts have failed and, of
20 course, that is supported by, you know, the medical
21 information that we have on file and all the various
22 assessments that we do with these individuals.

23 And what we're wanting to do is re-evaluate
24 those and we've identified about a hundred and thirty (130)
25 cases, currently, where we believe that these cases fall

1 Corporation considers these -- the effectiveness of these
2 cost savings initiatives and just basically how successful
3 they are compared to prior years. And I'm thinking in terms
4 of what the experience appears to have been in terms of
5 claims costs and the escalation in PIPP claims and bodily
6 injury claims in general.

7 On the bodily injury side, how satisfied are
8 you that you're saving some costs by virtue of these
9 initiatives?

10 MR. WILF BEDARD: Well, these initiatives
11 have been put in place to -- to manage the entire case load
12 of PIPP. And to make sure, as I was saying earlier, that
13 we're providing good quality service, but yet being
14 responsible stewards of -- of the premium payer's funds, that
15 go into supporting PIPP claims.

16 What is described here is a number of
17 initiatives that we have put in place to deal with that, to
18 better educate the medical community, to negotiate working
19 practises and fee structures with -- with business partners.
20 To look at our -- our resources, our human resources on the
21 injury side, to maximize their skill and ability and
22 potential to best deal with and support the -- the claimants
23 who come to us.

24 We -- we call them cost savings, because we
25 believe that there is a cost savings that outcrops from that,

1 but we haven't put a lot of effort into trying to quantify
2 that. We just believe that these are best practises, in
3 terms of how to manage responsibility of the work in this
4 area.

5 And we believe that what we've done has been
6 good for the Corporation. Good for the business partners --
7 business partners that we work with. And in particular, you
8 know, it works very well for -- for the patients that come to
9 us, who are in need of -- of funding and our support to get
10 them back on their feet and to resume their normal activity
11 after their car accident and associated injury.

12 MR. WALTER SARANCHUK: Do you collaborate
13 with other public insurers, ICBC, SGI, on -- on these issues?

14 MR. WILF BEDARD: Yes, we have contacts of
15 course in -- in all of the other Provincial Crown
16 organizations, as well as the SAC in Quebec. There's
17 dialogue throughout the year on a variety of issues. And
18 once a year, the representatives of all organizations meet,
19 usually for three (3) days.

20 One (1) of the individuals hosting, taking
21 turns hosting, they had the most recent meeting hosted by SGI
22 in Moosejaw, just a few weeks ago. Where all these people
23 have come together to talk about the initiatives that they
24 have been introducing into -- into their jurisdictions,
25 looking for information and sharing information to understand

1 what everyone's doing and to maximize the responsibility that
2 we have in administering these programs.

3 MR. WALTER SARANCHUK: In the circumstances,
4 is it time for MPI to try to quantify the savings, or the
5 benefits of the initiatives?

6 MR. WILF BEDARD: Well, we can have another
7 look at that. I'm not -- I'm not convinced that, you know,
8 we can quantify it. I'm not sure it's necessary. I believe
9 inherently that these are the right things to do, for the
10 reasons I've described.

11 And, no, I don't really think that anything
12 that we do to -- to review, trying to quantify these, is
13 really going to come up with anything that is supportable to
14 any great degree.

15 MR. WALTER SARANCHUK: Yes, I don't think
16 you're going to find an argument that the -- the theory is
17 certainly one (1) that you can be commended for.

18 But in terms of the practice and the cost
19 effectiveness of it all, isn't that something that requires a
20 little more investigation from the Corporation's standpoint.
21 As opposed to just being governed by the fact that, well,
22 it's not a bad idea, let's continue with it. And basically
23 ignore what the results are?

24 MR. WILF BEDARD: Well, I don't think we're
25 ignoring what the results are, we just -- we know inherently

1 that these are, as you've said, the right things to do.
2 There is benefits.

3 We can, you know, look at -- at that again,
4 attempting to quantify these types of practises, and a -- and
5 a number of other practises. Again, it's -- it's a difficult
6 thing to do, but perhaps maybe it is time again. We've had
7 these initiatives in place for a few years now, and perhaps
8 it is time that we maybe take another look at trying to
9 create some -- some science around the quantification and try
10 to evaluate the benefit from a -- from a dollar perspective.

11 But we know there is really benefits to the
12 organization, and to -- to Manitobans, because of these
13 initiatives.

14 MR. WALTER SARANCHUK: Thank you, sir. Is
15 there some --

16 MS. MARILYN MCLAREN: Mr. Saranchuk, maybe I
17 could try to put a little bit different language around the
18 same issue, along the lines of what Mr. Bedard talked about.

19 I think when he talked about knowing
20 inherently they're the right thing to do, I think he was
21 talking about from the cost management perspective. It was a
22 little more tangible than that, when we made the first
23 decisions to go into these kinds of initiatives.

24 We analysed best practices, we stated a bunch
25 of expected outcomes from approaching claims handling in a

1 certain way. And, after we decided to proceed with that, we
2 monitored it to see that we truly did receive the outcomes
3 that we anticipated.

4 So it was not like we just really think it's a
5 good idea, we think it helps manage costs, but what we know
6 it does is tangibly deliver the other benefits that were
7 identified up front once the -- the process has been fully
8 implemented.

9 We know how to do a quantitative study. We
10 can run parallel processes. We can handle a bunch of claims
11 one (1) way and a bunch of claims another way and average the
12 costs on both sides of it when we're done. We don't think
13 that's in anybody's best interest to go to that length to
14 come up with dollars, because we believe the practices are
15 the best for -- particularly for the Claimants.

16 MR. WALTER SARANCHUK: What about -- looking
17 at the dollars in comparison with SGI, SAC in Quebec, ICBC,
18 Workers' Compensation Board, isn't that something that the
19 Corporation would be interested in?

20 MS. MARILYN MCLAREN: Absolutely. And we
21 monitor all of those things. There's all kinds of
22 comparisons that we monitor regularly with respect to average
23 cost of claims, claims expense, other processes. But you
24 have to also balance that with the different nature of the
25 coverages and different jurisdictions, so it's never a simple

1 mathematical calculation.

2 To compare a -- a claims handling practice
3 against another claims handling practice in a particular
4 jurisdiction with exactly the same coverage, it would have to
5 be side-by-side scientific -- you know -- with a -- a test
6 group and the variable group and I don't know that that would
7 be in anybody's best interest.

8 Do we pay attention to what's happening here
9 in relation to all those other jurisdictions? Absolutely.
10 That -- that's not the same as quantifying the dollar impact
11 of a particular claims handling strategy.

12 MR. WALTER SARANCHUK: Yes, and I don't mean
13 to dwell on this due to time constraints, but I'm a little
14 intrigued by the reference to coverages. Because quite
15 frankly, I would like to think that if one were to suffer a
16 whiplash injury in British Columbia and be treated by medical
17 people who are paid by ICBC, that that treatment wouldn't
18 differ much from somebody who was injured in Manitoba and is
19 covered by MPI.

20 Aren't those treatment plans and the
21 initiatives all of some relevance in determining just what is
22 efficient? What is -- not only from a medical standpoint,
23 but from a dollar standpoint?

24 MS. MARILYN MCLAREN: Certainly they are, but
25 that wasn't the nature of the quantifying the dollar value of

1 different claims handling strategies that we were talking
2 about earlier. We weren't -- we weren't suggesting that we
3 simply compare the average cost of a whiplash claim here and
4 there.

5 It was a much broader question that you were
6 asking Mr. -- Mr. Bedard with respect to, you know, triaging
7 claims and -- and putting all the claims for one (1) employer
8 together and all of those things are the kinds of things that
9 you were looking for -- cost benefit analysis.

10 MR. WALTER SARANCHUK: Mr. Bedard, does the
11 Corporation have an agreement with Manitoba Health?

12 MR. WILF BEDARD: The only agreement that we
13 have is recovery of cost that was calculated and agreed upon
14 in 1994 when the no-fault system came in.

15 The intent was to continue to compensate
16 Manitoba Health to an equal extent that they were recovering
17 in the Tort environment. That is calculated on an annual
18 basis and -- and dollars do flow from MPI to Manitoba Health
19 to ensure that their degree of recovery that they enjoyed
20 under the Tort regime continues to exist.

21 MR. WALTER SARANCHUK: Now, has there been a
22 review of that agreement since 1994? A review of the terms?

23 MR. WILF BEDARD: No, there has not.

24 MR. WALTER SARANCHUK: What about the
25 formula, for example, of allocating those costs? You're

1 satisfied from the Corporation's standpoint that there's no
2 need for a review considering that ten (10) years have gone
3 by?

4 MR. WILF BEDARD: That formula was agreed
5 upon between ourselves and Manitoba Health ten (10) years
6 ago. Both parties are comfortable with it; continue to apply
7 it as it was created ten (10) years ago.

8 If there was any reason to re-evaluate that,
9 I'm sure they would have raised the issue, being the
10 recipients of those funds. They're obviously satisfied with
11 it, we are satisfied with it and it seems to work for both
12 parties.

13 MR. WALTER SARANCHUK: Could you file a copy
14 of the agreement for the record in due course?

15 MR. KEVIN MCCULLOCH: I'd have to check, Mr.
16 Chairman, I -- I believe the copy was filed at -- at some
17 previous hearing. We'll try to locate that record and either
18 refer to that particular filing or produce a new copy.

19

20 --- UNDERTAKING NO. 6: Copy of 1994 agreement between
21 Manitoba Health and MPI.

22

23 MR. WALTER SARANCHUK: Yes, I think that
24 would be satisfactory. Mr. Chairman, do you agree?

25

THE CHAIRPERSON: Yes.

1 MR. WALTER SARANCHUK: Yes. Thank you, if
2 you wouldn't mind pursuing that then, Mr. Bedard -- or Mr.
3 McCulloch.

4 MR. WILF BEDARD: Yes, certainly.

5 MR. WALTER SARANCHUK: Just generally
6 speaking, from what you've told us then, the formula for the
7 amount paid to Manitoba Health hasn't changed. But is there
8 any provision in the agreement for such change?

9 MR. WILF BEDARD: The formula is indexed to
10 the healthcare index and as a result of that it's adjusted
11 every year.

12 MR. WALTER SARANCHUK: Okay, then we'll take
13 a look at the agreement once it's filed and take it from
14 there. Thanks, Mr. Bedard.

15 Dealing now with the cost savings initiatives
16 under the all perils scheme of things. Dealing quickly and
17 this is referred to at SM-5.4 in Volume 1, perhaps you can,
18 at a high level, just give us an indication of how successful
19 you are in your use of alternate parts and the recycled
20 parts, Mr. Bedard?

21 This is referred to incidently at Tab 15 in a
22 question posed by the Public Utilities Board as number 18 in
23 the First Round. That dealt with the summary of the savings
24 so that might assist you. But at a high level perhaps you
25 can give us some indication of how successful that's been.

1 MR. WILF BEDARD: Yes, certainly. MPI, on an
2 annual basis, spends about \$90 million in buying parts for
3 vehicles. So it's certainly in our best interest to manage
4 those costs by maximizing our use of after market parts which
5 are really new parts that are manufactured by organizations
6 other than the manufacturer, the OE, the original equipment
7 manufacturer.

8 There a number of suppliers worldwide who
9 produce those parts -- replacement parts and they do provide
10 the same warranty as the OE parts at -- at a much lower
11 price.

12 On a recycled, the recycled parts of course
13 are used parts that have been reconditioned for -- for sale
14 and use. We have a very good working relationship with the
15 automotive recyclers of Manitoba where we have a system
16 whereby when estimates are completed we broadcast the
17 requirement for recycled parts that we need in a repair
18 process.

19 We have a system that works extremely well for
20 us here in Manitoba and as a consequence we've been able to
21 year over year, increase the percentage savings with the use
22 of recycled parts. We are very pleased with the availability
23 of after market parts within Manitoba as well. That
24 continues to improve as -- as the years go on.

25 So as a result we're able to not only repair

1 more cars, but we can repair them cheaper using good quality
2 recycled and after market parts, save a lot more vehicles and
3 reduce the overall costs.

4 MR. WALTER SARANCHUK: Thank you, sir. And
5 with reference to the interrogatory in the response shown at
6 Tab 15. At Tab 42, there is an interrogatory filed by
7 CAC/MSOS as number 31 on the second round which basically
8 expanded the table to include the projections for 2004/2005.

9 And the question that I have, sir, given your
10 last answer, the projection for 2004 for the use of recycled
11 parts seems to indicate that there is a decrease to 14
12 percent from 15 percent in 2003 for the use of recycled
13 parts.

14 Can you explain that?

15 MR. WILF BEDARD: I -- I think the 15 percent
16 increase or the usage rather in 2003 was a bit of an anomaly.
17 We did add a number of new recyclers to our agreement and as
18 a result the -- the percentage went up, but I don't -- I
19 don't believe that's going to continue on in the future.

20 I think we will hopefully continue to use
21 recycled parts, to the extent that we have. The availability
22 is something we continue to -- to work on. We have been for
23 the last four (4) or five (5) years, really working on
24 ensuring availability of those parts. Ensuring that we have
25 the capability of identifying the location of them, where

1 they are.

2 I'm not sure if we have that opportunity
3 beyond you know, the 14 percent usage that you see here,
4 going up for the next couple of years. It's a -- it's
5 something that we work towards, something that we evaluate
6 and perhaps, you know, we've maximized the capability to
7 somewhere around the 14 percent.

8 MR. WALTER SARANCHUK: Thank you, sir. Now
9 I'd like to ask you a few questions on your anti-theft
10 initiatives. And this is dealt with at Tab 28 in the Book of
11 Documents, question number 47 of the Public Utilities Board
12 in the First Round of Interrogatories.

13 And just taking a look quickly at the first
14 page of that particular document, that's at Tab 28. There's
15 no doubt that the incidents of auto theft is increasing,
16 would you agree, Mr. -- Mr. Bedard?

17 MS. MARILYN MCLAREN: I can answer that, Mr.
18 Saranchuk, yes, it has been and continues to increase.

19 MR. WALTER SARANCHUK: And of course we
20 previously noted the increase in the comprehensive claims
21 costs, accordingly?

22 MS. MARILYN MCLAREN: Yes.

23 MR. WALTER SARANCHUK: Now, in Tab 28, in the
24 last page, there is reference to the costs of the various
25 aspects of the Corporation's auto theft programs. Perhaps

1 you can confirm that basics share, as shown for 2004/05, the
2 year that we're in, is to be \$1.2 million, actually some --
3 with some twenty thousand dollars (\$20,000) being projected
4 for 2005/06.

5 Is that enough money being directed to that
6 Mr. -- Ms. McLaren?

7 MS. MARILYN MCLAREN: At this point in time
8 I'm honestly not sure how much would be enough, how much
9 would be too much. Making a direct link between our
10 expenditures and savings related to auto theft has been
11 extremely difficult.

12 I can tell you that this is an issue that
13 continues to get a lot of attention with -- within Manitoba
14 Public Insurance. Quite frankly it's not an issue that I
15 personally spent a lot of time on previous to my appointment.

16 The matter will be dealt with extensively at
17 an upcoming Board of Directors Executive Management Planning
18 Session later this month. I -- I know the citizens of this
19 Province are -- are extremely concerned. I know the
20 Government is concerned.

21 As we've talked about in this forum before, it
22 really is a challenge to identify the appropriate roles of
23 all the different stakeholders. It's not something that
24 Manitoba Public Insurance can own exclusively. We certainly
25 are key players. Vehicle owners have a huge role to play, as

1 does the -- the justice system, community involvement is --
2 is critical as well.

3 So, I honestly can't tell you that, yes, 1.2
4 million this year and 1.22 million next year, are exactly the
5 right amounts of money to spend. But it certainly continues
6 to get a lot of attention and consideration within Manitoba
7 Public Insurance and within the larger community.

8 MR. WALTER SARANCHUK: And basically that is
9 the conclusion drawn in the anti-theft review report that was
10 filed last year, is that correct?

11 MS. MARILYN MCLAREN: Yes.

12 MR. WALTER SARANCHUK: Now, there is
13 reference of course to the Winnipeg Police Service Program,
14 in your anti-theft program. Can you give us at a high level,
15 an indication of what that's all about, and what is the
16 status of the current agreement?

17 In other words, what is the Corporation
18 actually funding there?

19 MS. MARILYN MCLAREN: Manitoba Public
20 Insurance is funding a number of police officers who
21 investigate auto theft -- investigate and proceed to lay
22 charges on auto theft. That is the -- the core of the
23 Winnipeg Police Service Program. We fund a number of
24 officers as does the Police Service to be fully dedicated to
25 investigate auto theft crime.

1 MR. WALTER SARANCHUK: Can it be said that
2 that is the primary program for auto theft and looking at the
3 figures shown in the program results on the last page of Tab
4 28?

5 MS. MARILYN MCLAREN: Well, it's -- it's one
6 (1) of the most costly. I think the Auto Theft
7 Countermeasures Initiatives is -- is important as well.
8 Those are the two (2) big ones.

9 MR. WALTER SARANCHUK: Is it safe to say that
10 there's much more that -- that can be done and will be done
11 by the Corporation in this line?

12 Not necessarily with the Winnipeg Police
13 Service, but in directing its efforts toward the auto theft
14 experience?

15 MS. MARILYN MCLAREN: I think that ties back
16 to our conversation of a few minutes ago. There's -- there's
17 always more than can be done and it's a matter of all the
18 stakeholders sitting down together to decide who is best to
19 do each one and how do we allocate that responsibility
20 amongst all the shareholders? So, certainly there -- there
21 has to be more that can be done because we have not found a
22 way to curb, certainly not reduce, this really serious
23 problem that we have in society as a whole.

24 MR. WALTER SARANCHUK: Yes, Ms. McLaren,
25 amongst others under the heading of Safety Initiatives or

1 perhaps Mr. Bedard, we know that there have been red light
2 cameras installed at different intersections in -- in
3 Winnipeg and this was addressed in Question 48 of the Public
4 Utilities Board on the first round and as appears in Tab 29
5 of the Book of Documents, the Corporation was asked this
6 question:

7 "Please advise whether [this is Part B]
8 whether the Corporation has prepared any
9 analyses with respect to the following and,
10 if so, provide a summary of the results.
11 Firstly, the impact of red light cameras in
12 Winnipeg on projected claims frequency and
13 severity and on the Bonus/Malus System and
14 secondly the impact of graduated licencing
15 on claims frequency and severity and/or the
16 Bonus/Malus System."

17 And if you would, Mr. Bedard, just read in the response by
18 the Corporation to those two (2) -- to those questions. This
19 is on Page 2 at the very bottom.

20 MR. WILF BEDARD: The response to Section B
21 of this question is:

22 "The Corporation has not conducted any
23 analysis on the impact of the red light
24 cameras in Winnipeg on projected claims
25 frequency and severity and on the

1 Bonus/Malus System."

2 MR. WALTER SARANCHUK: And the primary reason
3 for that, sir?

4 MS. MARILYN MCLAREN: What we do within our
5 claims forecasting methodology within the Corporation is, we
6 try to understand the history to predict the future. If we
7 see changes in frequency and severity, we will try to
8 identify the -- the direct causes of those changes and then
9 decide whether it's something that will be expected to
10 continue into the future or not.

11 Because we have an initiative like red light
12 cameras which are predicted to improve road safety, we would
13 never then, in our claims forecasting approach, say, Okay,
14 well let's just assume then that we'll have a reduction in
15 frequency because we have these devices now on the road. We
16 always wait to see whether there's been an impact and then we
17 try to assess the extent to which that impact will continue
18 in the future.

19 So when the question was asked about it, we
20 looked at the projected impact -- no, we would have to see
21 some impact and then move forward on that basis.

22 With respect to graduated driver licencing,
23 clearly we have -- will be as responsive -- you know there's
24 now the organization responsible for following up on the
25 implementation of that program. We will certainly be doing

1 our best to assess the impact that that program has had on
2 driving patterns in Manitoba.

3 And again, in terms of the cameras and
4 convictions and so on, we will have to see how that goes.
5 You know, I mean one (1) of the issues with red light cameras
6 is -- is most of the convictions associated with those
7 devices are speed related, not red light related.

8 And the only way that I could -- that we would
9 expect to really see a significant difference in claims
10 experience, tied back to those devices, is if there continues
11 to be a high level of speed enforcement everywhere in the
12 City, in addition to where these cameras are located, so that
13 the perceived risk of being caught for speeding is high or
14 higher than it's been, then you'll see a change in behaviour.

15 If people really think that they need to watch
16 themselves, where the cameras are, but nowhere else, we're
17 not going to see anything happen.

18 MR. WALTER SARANCHUK: And so how much time
19 do you need to assess the effect of these measures?

20 MS. MARILYN MCLAREN: Well, I think you need
21 at least a couple of years to -- to note any differences in
22 the number of convictions. And certainly, I mean now --
23 again, now that we have responsibility for DDVL, we're going
24 to be looking at things like this from a couple of
25 perspectives.

1 We always have considered the impact on
2 claims, but we will also now be able to -- to look and
3 consider the impact on the number of convictions, where those
4 convictions occur, in terms of that form of driving behaviour
5 that has significant risk associated, but doesn't link to a
6 claim every time.

7 MR. WALTER SARANCHUK: So, in other words,
8 there's some -- there would be some thought about the impact
9 on whether there should perhaps -- perhaps be a change in the
10 Bonus/Malus system to include some of that -- those driving
11 habits?

12 MS. MARILYN MCLAREN: Assigning demerit
13 points for red light camera speeding tickets? That
14 particular one (1) I don't think would be Manitoba Public
15 Insurance's decision, but clearly we -- we need to find ways
16 to continue to make sure we're assessing risk appropriately,
17 and using all the information we have available to us, in an
18 appropriate way, definitely.

19 MR. WALTER SARANCHUK: Would the -- would the
20 integration of DDVL assist on that score? Demerit points is
21 what I'm getting at?

22 MS. MARILYN MCLAREN: No. DDVL (sic) never
23 had the authority to make decisions like that on their own,
24 those are always Government decisions. Those kinds of
25 decisions require regulations. So, simply having

1 responsibility for the administration doesn't give any more
2 power of decision making.

3 MR. WALTER SARANCHUK: So, the decision would
4 be by Government?

5 MS. MARILYN MCLAREN: Yes.

6 MR. WALTER SARANCHUK: Thank you.

7 THE CHAIRPERSON: Ms. McLaren, isn't there
8 considerable experience in other jurisdictions with respect
9 to the effect of red light cameras on accidents, severity,
10 even fatalities?

11

12 (BRIEF PAUSE)

13

14 MS. MARILYN MCLAREN: I understand that no
15 one has ever been able to show that the accident frequency
16 and severity and the jurisdiction as a whole, has been
17 decreased with the implementation of these devices.
18 Certainly it has affected incidents at specific
19 intersections, but that sum often is identified as a
20 displacement rather than an overall reduction.

21 THE CHAIRPERSON: What about the experience
22 in Australia?

23

24 (BRIEF PAUSE)

25

1 MS. MARILYN MCLAREN: I understand that in
2 Australia, as well as Saskatchewan, there as well, they --
3 they found that it tends to be a matter of displacement.

4 Australia has certainly seen a significant
5 reduction in roadway deaths and serious crashes, but they had
6 -- they didn't just implement the cameras, they -- they
7 significantly increased all kinds of enforcement. And I
8 think that's -- that's the difference, and that's what's
9 required anywhere in a jurisdiction. There has to be a
10 relatively high perception that if you speed you will be
11 caught, not just where the cameras are placed.

12 THE CHAIRPERSON: Thank you.

13

14 CONTINUED BY MR. WALTER SARANCHUK:

15 MR. WALTER SARANCHUK: Yes, just dealing very
16 briefly on the pre-PIPP claims and that tort runoff, Mr.
17 Bedard, I know this is close to your heart. Can you give us
18 an idea of just how you're faring there?

19 MR. WILF BEDARD: Yes, it is close to my
20 heart. It's been -- it's been there for ten (10) years now.
21 And I can tell you that we do monitor the runoff, continue to
22 monitor the tort runoff very closely.

23 As of last Wednesday, we have reduced that
24 case load down to thirty-nine (39) outstanding cases, which
25 is a significant achievement since we were here last year, I

1 believe we had almost double that last year. So we are down
2 to thirty-nine (39) cases, they are very difficult cases to
3 try and resolve. We have them managed by one (1) individual,
4 and most of the defences -- pardon me, all of the defences
5 now have been farmed out to independent counsel, and we're
6 trying to aggressively pursue closure of those.

7 But as you can well appreciate, after
8 reducing some twenty-five thousand (25,000) cases down to a
9 remaining thirty-nine (39) they're -- the nature of those
10 cases are very, very difficult to conclude.

11 MR. WALTER SARANCHUK: Are you satisfied that
12 the reserves in place are sufficient to cover off those?

13 MR. WILF BEDARD: Yes, I am.

14 MR. WALTER SARANCHUK: Now, proceeding to the
15 topic of reinsurance briefly, the Corporation has in place a
16 reinsurance program. Mr. Galenzoski, or Ms. McLaren, perhaps
17 you can just explain what that is?

18 MR. BARRY GALENZOSKI: Yes, as in past years,
19 the Corporation has maintained a reinsurance program for both
20 catastrophe events. This is events that are largely caused
21 in Manitoba by hail. We've had two (2) major experiences on
22 that in the last few years.

23 We have a program that provides protection
24 after the first \$5 million of loss, up to a \$150 million.
25 That's in a layered program that -- that we buy through the

1 reinsurance industry. And then further to that, we have a --
2 a casualty reinsurance program, which primarily protects us
3 for large bodily injury claims. These are claims that are
4 going to be in the millions of dollars.

5 Retention on that program now is \$2 1/2
6 million, and recovered up to \$40 million or \$50 million,
7 sorry, for up to the top end of the program.

8 MR. WALTER SARANCHUK: Yes, and this
9 particular topic is addressed in TI-19 in Volume II, Part 2.

10 Mr. Galenzoski, as I understand it, on looking
11 at the information from the Corporation, as you pointed out,
12 there have been some changes, so that for example, on the
13 casualty program side, the \$3 million excess of 2 million was
14 replaced by \$2.5 million, excessive 2.5 million layer, with a
15 \$2 million deductible.

16 What brought that about?

17 MR. BARRY GALENZOSKI: Well, it was primarily
18 driven by the cost of the program. The -- we have an idea as
19 to what we think that particular layer should cost. The year
20 before that we bought a 2 million excess 2 million with an
21 aggregate deductible attached to that.

22 We had to move ourselves up the scale a little
23 bit, simply because of the costs coming in from the
24 reinsurers were higher than we thought were necessary.

25 MR. WALTER SARANCHUK: And there's reference

1 that only 97.5 percent was placed. Again, is that cost
2 driven?

3 MR. BARRY GALENZOSKI: Well, what that tells
4 you is that the price that we were willing to pay for the two
5 point five (2.5) excess two point five (2.5) layer, was as
6 low as the market would bear, because we couldn't find enough
7 of the market out there to place the program on a 100 percent
8 basis, we had to retain a small portion of it ourselves.

9 MR. WALTER SARANCHUK: And with the upper
10 layer of 20 million excess of 20 million replaced by 30
11 million excess of \$20 million, is there some implication on
12 the overall question of coverage and costs?

13 MR. BARRY GALENZOSKI: I'm not sure I
14 understand that particular question, but I think what it
15 reflects is that this is a real clash protection, in the
16 event that there's a significant event, involving many
17 injured out of one (1) incident.

18 And there's a lot less exposure here, with
19 respect to actual past occurrences in Manitoba or anywhere
20 else in Canada, with the result that the costs of that cover
21 is lower on a -- on a percentage basis. And so we were able
22 to buy a little bit more on that -- on that upper end.

23 MR. WALTER SARANCHUK: Is there an allowance
24 for doubtful accounts, related to reinsurer's share of unpaid
25 claims still being booked?

1 MR. BARRY GALENZOSKI: Yes, we're still
2 booking that at 10 percent.

3 MR. WALTER SARANCHUK: And what is the amount
4 in this Application?

5 MR. BARRY GALENZOSKI: I believe that amount,
6 as it relates to this Application, it would only be the
7 incremental change in the amount now, year over year, and we
8 have been actively commuting some of our older years of the
9 casualty program, that's where the big dollars are when
10 there's not a catastrophe loss, of course. So I'll deal with
11 that part of it first.

12 So you're only seeing incremental changes, so
13 there'd be very small amounts, maybe even negative amounts in
14 our Application for this particular year, for that particular
15 part of the liabilities.

16 MR. WALTER SARANCHUK: Incremental on what
17 amount, do you --

18 MR. BARRY GALENZOSKI: Well, overall our --
19 our recoveries from reinsurers would be in around the \$50 to
20 \$60 million range at any point in time.

21 So 10 percent of that number would be \$5 to \$6
22 million. So a relatively small amount.

23 And then what you're going to measure for the
24 Rate Application year going forward, is the change that's
25 going to occur. So that might go up a million or down a

1 million, depending on whether or not we've commuted a
2 particular year or not, or in the case of the catastrophe
3 loss for 2001, we commuted that, so we recovered all the
4 amounts that were outstanding virtually on that, and as a
5 result that makes that 10 percent allowance disappear.

6 MR. WALTER SARANCHUK: And this is
7 essentially where there is an inability or unwillingness to
8 pay, by a reinsurer, on a claim. Is that correct?

9 MR. BARRY GALENZOSKI: Yeah, it wouldn't be
10 an unwillingness, it would be the inability of a reinsurer to
11 pay. This is an allowance for that factor.

12 MR. WALTER SARANCHUK: And has the
13 Corporation ever made such a claim?

14 MR. BARRY GALENZOSKI: Well, we haven't in
15 the recent years, but --

16 MR. WALTER SARANCHUK: Did you say have not
17 or have?

18 MR. BARRY GALENZOSKI: Have not in recent
19 years, but we have in our -- in our long ago history, that's
20 occurred to us, where we've had a few hundred thousand
21 dollars slip away on us.

22 MR. WALTER SARANCHUK: And when was that?

23 MR. BARRY GALENZOSKI: That would have been
24 in the -- in the late '70s early '80s time frame.

25 MR. WALTER SARANCHUK: Thank you, sir. Mr.

1 Chairman, I don't know whether this is a convenient time to
2 break for the morning break or not, but I intend to move on
3 to another major area, namely motorcycles, in my next bit of
4 cross-examination.

5 THE CHAIRPERSON: I'll take that as a
6 suggestion, well received.

7 MR. WALTER SARANCHUK: Thank you, sir.

8 THE CHAIRPERSON: Well we'll return then at
9 10:25 thank you.

10

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

12 --- Upon resuming at 10:30 a.m.

13

14 THE CHAIRPERSON: Anytime you're ready, Mr.
15 Saranchuk.

16 MR. WALTER SARANCHUK: Thank you, sir. I
17 think Mr. McCulloch wants a -- to make a comment.

18 MR. KEVIN MCCULLOCH: Yes, Mr. Chair. Mr.
19 Chairman, we have the response to Scootering Manitoba's Pre-
20 Ask. I note that the pre-ask question is Exhibit SM-2.
21 Presumably the answer can be given the same exhibit number?

22 THE CHAIRPERSON: Very good.

23

24 --- EXHIBIT NO. SM-2: Response to Scootering Manitoba Pre-
25 Ask

1 (BRIEF PAUSE)

2
3 MR. WALTER SARANCHUK: Thank you, Mr.
4 Chairman. I -- before proceeding to deal with the
5 motorcycles and the claims experience there in the motorcycle
6 study, I have a few questions relative to the filing this
7 morning by the corporation as Exhibit MPI-6 with reference to
8 the asset liability study and the reports Attachment 1 and 2
9 filed pursuant to the undertaking that we asked of them.

10 And the idea here, I guess Mr. Galenzoski is
11 to explore your decision in terms of effectively continuing
12 with the corporation's own policy and not accepting Mercer's
13 recommendation. So I wonder if we could start by having you
14 review the asset mix -- Asset Mix 4, I guess it is,
15 recommended by Mercer.

16 And while you're looking for that particular
17 page which I would -- I think it's at page number 43, while
18 you're looking for it, could you tell us why Mercer's
19 Investment Consulting was selected?

20 MR. BARRY GALENZOSKI: Yes, they were
21 selected based on responses to a request for proposal that
22 was put out by the corporation. So we looked at a number of
23 different firms that had the ability to provide this service
24 and they were selected.

25 MR. WALTER SARANCHUK: Yes. And just before

1 getting to Page 43 in the schedule of the mix 4, if you will,
2 that they were recommending, I wonder if you could just deal
3 briefly with the objectives of the study on Page 5.

4 MR. BARRY GALENZOSKI: Yeah, actually the
5 objectives of the study start on Page 4, the Primary
6 Objectives. They're to:

7 "Review and establish a long-term asset mix
8 policy which strikes an appropriate balance
9 between the desire for high returns and low
10 risk."

11 The second item was:

12 "To fulfill the Investment Committee's
13 responsibilities to prudently manage the
14 plan's investments, taking into account
15 various factors including the nature of
16 claims and benefits, the changing economic
17 environment, capital market expectations,
18 etc."

19 And then secondary considerations are shown on
20 Page 5 and they include:

21 "Review and assess the match or mismatch
22 between asset and liability characteristics
23 and provide a deeper understanding of the
24 expected impact of various investment
25 policy alternatives, the investment risks

1 faced by MPI, capital market expectations,
2 sensitivity to alternative -- or alternate
3 economic scenarios, and likelihood of
4 investment income meeting near term and
5 long-term goals."

6 MR. WALTER SARANCHUK: And then in arriving
7 at their recommendations, which I'll ask you again to provide
8 based on what it is at Page 43, they took into account what
9 is at Page 38, as I understand it from MPI's standpoint.

10 Would you agree? And if you could just -- a
11 very high level explain what is mentioned there.

12 MR. BARRY GALENZOSKI: This wasn't
13 necessarily our issue, this was their methodology that --
14 that they utilize in this. This was looking at the -- the
15 growth in the rate stabilization reserve and retained
16 earnings as a relevant measure of return rather than an
17 investment return.

18 I -- quite frankly -- my preference would have
19 been to look at just the -- the pure investment returns on
20 this, but this was their methodology and the methodology that
21 they brought to the table and they further went on to
22 indicate that they thought that the RSR and retained earning
23 volatility is likely a more relevant measure of risk than it
24 is investment return volatility.

25 I think this is -- you know -- I'm looking at

1 it from the -- the overall ability of the fund to produce
2 investment returns. The investment returns do not flow
3 directly to the rate stabilization reserve or retained
4 earnings. Only the net of what's left over after other
5 expenses like claims costs and operation and -- and claims
6 costs.

7 All of those costs are taken into
8 consideration and so this was -- this was not something that
9 the Corporation directed, but this was part of their
10 methodology that they came back with. My preference would
11 have been to look at more on the pure return side.

12 MR. WALTER SARANCHUK: So, was Mercier's
13 recommended mix just off the mark compared to what you were
14 looking for?

15 MR. BARRY GALENZOSKI: No, I don't think that
16 -- I think what happened here -- they -- they came back with
17 a different asset mix and primarily, they were looking at
18 just getting a wider diversification of assets rather than
19 any real substantial improvement in return and when you look
20 at the -- at the actual recommendation that they make and
21 then you compare it to the -- to the numbers that I went over
22 when we filed this document, which is the one (1) year, five
23 (5) year, and eight (8) year returns, you're going to see
24 that there isn't a large amount of difference between our
25 current policy or our current mix compared to mix 4 that they

1 are recommending.

2 And the fact is, is that this recommendation
3 is not based on a certainty. It's based on an expectation or
4 an estimate as to what likely could occur and when the --
5 when the Board reviewed this, and considering other factors,
6 for instance the suggestion in this report that the
7 Corporation stop buying the Mush sector, which is one (1) of
8 our founding principles --

9 MR. WALTER SARANCHUK: Which again is --?

10 MR. BARRY GALENZOSKI: -- That's the
11 Municipal Schools and Hospitals, which we buy on average.
12 The last few years we've been putting thirty (30) -- \$35
13 million a year into that particular sector and that is one
14 (1) of our founding principles and -- and the Corporation
15 made that known to the -- to the advisor that this was
16 certainly an important issue for us.

17 The -- the other part is that they -- they
18 tended to ignore the volatility of the currency. This
19 analysis doesn't speak to that. And you know, I just again
20 went through it just in the last little while here and reread
21 it, and the analysis really doesn't speak to the volatility
22 of currency. And it is geared primarily towards market
23 value, as though market value is recorded on our books.

24 And again, there's the accounting reality of
25 our business that has to be taken into account. And so when

1 their -- their recommendation that we move to the EAFE or
2 other foreign investment, other than the United States, I
3 think was also met with a little bit of concern by our Board,
4 because of the fact of the problems we were having with the
5 hedging strategy, and the currency exposure that we were
6 seeing.

7 And -- and rightfully so. If you look at
8 what's happened to the Canadian dollar over the last year
9 now, and its -- and its appreciation, a massive impact had we
10 not been hedged, with respect to our earnings. We would have
11 lost almost all of the earnings coming out of the US side,
12 and I would presume out of the -- out of the other foreign
13 investment side, had we been in that type of investment, and
14 not been hedged.

15 So, there was some -- there was some
16 significant concerns that were expressed both by the
17 Investment Committee working group, and the Investment
18 Committee of the Board, which in relation to the
19 recommendations that were put forth by Mercier.

20 And as Mercier's recommendations didn't really
21 come out with any substantial benefit that could be seen in
22 the near term, it was decided not to make a change to our
23 Investment Policy Statement at this particular point in time.

24 MR. WALTER SARANCHUK: Now, turning to page
25 43, sir, I wonder if you could highlight that information,

1 particular with reference to mix 4, and referring to, for
2 example, the differences there and with emphasis on the long
3 term, for example, the mid term bonds, the long bonds and the
4 real estate.

5 MR. BARRY GALENZOSKI: Yes, if you -- when
6 you're looking at mix 4, you really have to compare it to two
7 (2) other columns, which are right in the middle of that
8 chart. That being the current mix that the Corporation has
9 and the current policy.

10 And I've explained earlier that currently we
11 are slightly different than our current policy, because of
12 concerns with respect to the US investments. And we're so --
13 when we looked at it at the point in time that this was done,
14 and this was done about a year ago now, we had a bigger asset
15 mix with respect to T-bills, which are about ninety (90) day
16 type investments, they're recommending staying pretty much at
17 the current policy, which is 1 percent.

18 Their big recommendation centred around the
19 mid term bonds, reducing that component from our current
20 policy of 64 percent down to 34 percent. Real return bonds,
21 moving that from 10 percent to 20 percent. Long bonds, which
22 our policy is zero (0) right now, saying go to ten (10).

23 Our Canadian equities, which is at twelve and
24 a half (12 1/2) now in our policy, moving that down to ten
25 (10). US equities, twelve and a half (12 1/2), moving that

1 down to ten (10). Going to EAFE at 5 percent, and then
2 adding real estate. They're adding both EAFE and real estate
3 -- real estate added at ten (10), compared to no allocation
4 right now.

5 And so -- and then they did some -- some
6 stress test scenarios, and that resulted in some
7 recommendations. And when we look down, I'll just get the
8 page here in a second. And if I'm jumping ahead of your
9 questions you can tell me and I'll stop and --

10 MR. WALTER SARANCHUK: Well, you're doing
11 fine.

12 MR. BARRY GALENZOSKI: Okay. If you looked
13 at -- on page 86, there it gives you the change required to
14 match mix 4 from our current policy. And so that tells you
15 the amount of -- of the percent change. A fairly massive
16 change to the investment structure of the Corporation.

17 And what that means is that you have to sell
18 some of this stuff. And on the mid term bonds, for instance,
19 to reduce that by 30 percent, that's not going to happen
20 easily, and that would include -- mid term bonds would
21 include all of the -- the MUSH sector that we have currently,
22 which is liquid.

23 So, that would mean that you'd have to retain
24 that and sell the other stuff. And it didn't go into any
25 kind of an assessment as to what that would do to the

1 Corporation's longer term outlook with respect to investment
2 income.

3 In other words if we -- if we did this
4 transition over a shorter period of time, let's say six (6)
5 months to a year, what impact was that going to have on not
6 only our -- our current investment earnings but on the future
7 that we've got built in for our future investments -- or
8 future financial forecasts.

9 That one component alone was quite troublesome
10 to the Board. Real return bonds adding 10 percent, it's nice
11 to say that, they're not that easy to find and it's one of
12 those things that would take some time to be able to do that.

13 The changes to the Canadian/US equity and
14 moving that to EAFE wouldn't have been a very difficult thing
15 in my mind to do if we wanted to do that.

16 Real estate is something we have not educated
17 ourselves about or -- or gotten much knowledge on at this
18 stage. We more than likely would have had to go into a
19 pooled fund on real estate which is again something that our
20 investment policy doesn't allow us to do at the moment.

21 So there was -- this was suggesting fairly
22 radical changes with very small benefits to the corporation
23 at least perceived by the -- their very own report. And,
24 just looking for the summary of that, and that's shown on
25 page 82.

1 And again it's those same numbers that I -- I
2 went over earlier when we filed this particular document.

3 And that's looking at both our current mix and
4 current policy with the average annualized returns ending
5 December 31, 2002. Now this is a historical review, okay.
6 And that's all that these people can do.

7 They can't predict where this thing is going
8 to go in future because if they did and it didn't happen,
9 then they'll probably have a lawsuit that they'd have to
10 contend with. So there's always ten (10) pages of why I
11 can't do that in -- in the contracts that you sign with these
12 guys.

13 So mix poor compared to both our current mix
14 and current policy, you can very easily read in as I read in
15 earlier, what the results would be. And when we look at the
16 three (3) and eight (8) year returns, there's not a lot of
17 difference. And on that basis considering that we were going
18 to have to kind of turn our investment portfolio on its ear
19 to a certain degree, it was decided that the recommendation
20 was not strong enough to entice the corporation into a
21 change.

22 MR. WALTER SARANCHUK: Looking at page 13 of
23 Attachment Number 2, sir.

24 MS. DENYSE COTE: Excuse me, before we leave
25 that table, do you think that Mercier would have not taken

1 into account in coming with the figures of 9.8 percent for an
2 eight (8) year return and 4.7 percent for a three (3) year
3 return?

4 Don't you think they would have taken into
5 account that that's the return you would've gotten had you
6 reduced your -- your midterm bonds by 30 percent? Like,
7 wouldn't they have factored in sort of the cost of doing
8 that?

9 MR. BARRY GALENZOSKI: No. Because they're
10 only looking at a historical return so they would not have
11 looked at what the transition costs would have been to move
12 the portfolio into this -- into this allocation that they're
13 suggesting.

14 They were only back casting. In other words,
15 they're looking at available information which is
16 statistically sound and it's -- it's the way you do these
17 types of analysis, you look -- you back cast and said, had I
18 been in this asset mix, this is the returns I would have
19 received.

20 And then they can compare that against what
21 the corporation actually got and compare that if the
22 corporation would have been invested in its actual policy
23 mix, what it would have got. So they're quite theoretical in
24 -- in that process but it makes no attempt to do two (2)
25 things.

1 It makes no attempt to predict what the
2 transition costs are going to be to get to the new mix of the
3 portfolio nor does it make any attempt to estimate what the
4 outcomes are going to be on that portfolio.

5 MS. DENYSE COTE Thank you.

6 THE CHAIRPERSON: If you had these problems
7 with the study, does it speak to the terms of reference or
8 also to -- you didn't do a redirect to them and ask them
9 to -- to take into account the policy statements of the
10 corporation with respect to the MUSH securities for example?

11 MR. BARRY GALENZOSKI: No, we -- we sat down
12 with them. This -- you'll notice that this study was done I
13 think in December and then the -- there was a presentation
14 again to the Board in January and we didn't make a decision
15 until I believe March or April as to what to do.

16 This study took about a year to do. We spent
17 a lot of time talking to them about what was going on and you
18 know, we gave them the -- they had our investment policy
19 statement, they had our -- our founding principals, I talked
20 to them personally about the MUSH sector and -- and how we
21 felt that was an important component of what MPI was here to
22 deliver.

23 So -- no, they chose their own path. We
24 didn't direct them -- their words in any way, shape or form
25 in here. And quite frankly from what I've seen in other

1 asset liability studies, there's -- their -- their process is
2 similar to what others have done in the past. They were
3 given free rein to look at any kind of investment. In the
4 past, when we did our very first asset liability study, we
5 did not consider EAFE or real estate.

6 We said, No, we're not interested in those
7 and they kept that out of the study. This time we said,
8 Well, let's look at it all and get a broader picture and so
9 they did that and they had free rein to do that, but they did
10 have all the relevant information with respect to MPI.

11 THE CHAIRPERSON: You say that they didn't
12 indicate any forecast of the future, but to recommend Mix
13 number 4, presumably they recommended that on the basis that
14 it would provide a more optimal yield from your perspective,
15 so presumably they must have been making some forecast to
16 future performance?

17 MR. BARRY GALENZOSKI: Well, it's not in the
18 report and it wasn't mentioned in any of their studies. What
19 they're -- they're suggesting is that you get a -- you get a
20 diversification of asset mix and they're -- they were going
21 on that basis alone. They -- they then back cast, as I
22 indicated before, to tell you what would have happened had
23 you had the portfolio in place, but you're never going to get
24 these people -- from what I've seen anyway -- and, you know,
25 I'm just looking at it from my experience -- you're never

1 going to get them to predict what the outcome of the future
2 is going to hold. There's just too many variables. Too many
3 things can go wrong, so you're not going to get that.

4 And I think you find that whether it's your
5 personal financial advisor -- whenever they tell you what --
6 what to do with your money, they're always telling you that
7 this fund made 15 percent for the last twenty-nine thousand
8 (29,000) years, but it just so happened that the year you got
9 into it, it went in the toilet. Well, that's the way these
10 things work, unfortunately. We did not get a recommend --
11 they did not give us any information with respect to the
12 future.

13 THE CHAIRPERSON: Thank you.

14 MR. WALTER SARANCHUK: Mr. Galenzoski,
15 turning to Page 13 of Attachment Number 2 -- it's entitled
16 Implementation -- this is also with reference to the table
17 above it on Page 12. Note the suggestion there about the
18 reduction of future MUSH (phonetic) bond purchases. Have
19 your comments addressed that?

20 MR. BARRY GALENZOSKI: Well, yes. We -- we
21 believe that we have a commitment to Manitobans to provide
22 this level of funding. We traditionally have had a fairly
23 substantial component of our investments in the MUSH sector
24 and we intend to continue that.

25 We believe that there's a -- a very good rate

1 of return as noted in the -- in the full-blown report. It
2 said that these investments are illiquid. That means -- to
3 the layperson -- they're not easily sold to - to attain the
4 cash out of them. It also says in the report that we don't
5 need the cash coming out of our portfolio. There's -- it's
6 not a -- a great likelihood that we're going to have to sell
7 some of our holdings to pay our current bills unless
8 something really unforeseen happens.

9 And so the situation that we're in is -- is,
10 I think, a win-win for both people in Manitoba as well as
11 MPI. We got a pretty decent rate of return on these. Yes,
12 they're not -- they're not liquid and you can't squeeze out
13 those -- those gains that might be imbedded in there and --
14 and we do a little bit of tracking on that just to see what
15 that might be. But it's certainly something that we're well
16 aware of.

17 MR. WALTER SARANCHUK: Well, they're not
18 really talking about selling. What they're saying is as I
19 understand it, reducing future bond purchases.

20 MR. BARRY GALENZOSKI: Well, I agree with you
21 and -- and what that means is that we're going to then have
22 in our portfolio, even more of an imbalance of illiquid
23 assets because we've -- we're going to have to hang onto
24 everything that we've got and we're -- it's says first from
25 the sale of marketable nominal bonds -- so they want you to

1 sell those first.

2 Keep all of the non-marketable stuff, or the
3 stuff that's illiquid, and then not to fulfill a commitment
4 that we believe that we have to Manitobans to continue buying
5 the MUSH sector. So again, they're striking right at the
6 heart of -- of our reasons for existence, in our opinion, and
7 they were putting us in -- in the situation where we thought
8 we might have less -- more problem on the illiquid side.

9 MR. WALTER SARANCHUK: Moving down to the
10 third bullet on Page 13. They deal there specifically with
11 the real estate situation and you, of course, indicated that
12 you did ask them to take that into account, although on prior
13 occasions they really were not asked to do so.

14 What can you tell us about what they
15 recommended in respect of real estate management and why
16 specifically wasn't that something that you thought would be
17 beneficial?

18 MR. BARRY GALENZOSKI: Again, it was -- they
19 were recommending this simply to get a spread of risk, in
20 other words, to have different asset classes involved in the
21 portfolio, not to necessarily generate more net income at the
22 bottom -- at the end of the day. And so they were
23 recommending that we get involved in some pool funds and
24 limited partnerships. These are levels of expertise that the
25 Corporation currently doesn't have within its -- within its

1 staffing levels now, or that the Department of Finance has.

2 And we decided that there was no real benefit
3 here to the Corporation to proceed into that asset class at
4 this time.

5 MR. WALTER SARANCHUK: Well are you saying it
6 wasn't implemented because you didn't have anybody qualified
7 to analyse it?

8 MR. BARRY GALENZOSKI: No, we said there was
9 no benefits shown to the Corporation, had there been a
10 benefit shown that we could have said let's -- if we did this
11 we were going to increase our yield in our portfolio by a
12 hundred (100) or two hundred (200) basis points on an annual
13 basis, then it might have been something worthwhile looking
14 at.

15 But because their long term projections were
16 that we were virtually going to have the same yield, just a
17 different risk factors, or just a different asset mix, that
18 give you more wider dispersion of assets, that wasn't
19 sufficient to cause the Corporation to change.

20 The other secondary considerations was our
21 level of expertise on this. That could be developed over
22 time, and we weren't overly concerned about that, because you
23 would hire outside managers to deal with that.

24 MR. WALTER SARANCHUK: But of course it
25 wasn't just a question of yield they were looking at. They

1 were looking at risk diversification?

2 MR. BARRY GALENZOSKI: Yes, they were looking
3 at risk diversification, but it was over the long term, it
4 showed that there was no -- no benefit. Like it's nice
5 having the risk diversification, but it still has to
6 translate into some bottom line benefit, otherwise why would
7 you do it?

8 And having -- you know, in fact this risk
9 diversification could end up hurting you just as much as
10 helping you. And I think that's one (1) of the things you
11 have to keep in mind in these types of things.

12 MR. WALTER SARANCHUK: But not if you located
13 the real estate management expertise that they were
14 recommending?

15 MR. BARRY GALENZOSKI: No guarantee that it's
16 going to perform to the expected levels or the levels that
17 were historically shown in the time periods that they
18 analysed.

19 MR. WALTER SARANCHUK: Looking at the last
20 bullet with reference to the International Equity Management
21 Expertise, you've dealt with that in your evidence, can you
22 elaborate why it appears that that has essentially been
23 dismissed as a -- as a consideration, or is that going too
24 far?

25 MR. BARRY GALENZOSKI: Well, it's been

1 dismissed at this time. And one (1) of the major
2 considerations which isn't addressed in this report, was the
3 -- the currency situation, and our concerns regarding that.

4 And that -- you know, that hasn't been
5 successfully addressed, in my opinion, with respect to our US
6 investments. So to add another currency exposure to the
7 portfolio, was not on, as far as we're concerned at this
8 stage.

9 MR. WALTER SARANCHUK: How much was spent for
10 this study, sir?

11 MR. BARRY GALENZOSKI: We spent sixty-eight
12 thousand dollars (\$68,000) on this study.

13 MR. WALTER SARANCHUK: And will you be
14 reviewing your decision at any time, perhaps again
15 considering what is recommended by these experts that you
16 engaged, to the tune of that amount?

17 MR. BARRY GALENZOSKI: No, not in the near
18 future, we don't intend to -- to review our decision. The
19 decision is made. This study would not likely occur for
20 another four (4) or five (5) years, depending on -- on the
21 situations that we find ourselves in.

22 MR. WALTER SARANCHUK: Thank you, sir.
23 Unless the Panel has any additional questions, I'll proceed
24 on with another topic.

25 Now, dealing with the motorcycle study, and

1 the motorcycle claims experience. We'll be looking at the
2 Corporation's study as filed at AI-16 in Volume II of Part 3.
3 And Volume III, Part 2, sorry. And also Tab
4 22, which is the Question 39, posed by the Public Utilities
5 Board of the Corporation, in the First Round of
6 Interrogatories.

7

8

(BRIEF PAUSE)

9

10 MR. WALTER SARANCHUK: And essentially what
11 we're going to do is explore the corporation's approach to
12 motorcycle rates as revealed in this Application. And
13 looking at the first table filed in response to the
14 interrogatory shown at Tab 22.

15 As I understand it this table reveals the
16 number of claims and the distribution in terms of the
17 motorcycle claims loss data by insurance year from 1999/2000
18 through to 2003/'04, is that correct?

19 MS. MARILYN MCLAREN: Yes, that's correct.

20 MR. WALTER SARANCHUK: And 2003/'04 as I'm
21 advised and as appears reveal that there are two (2) losses
22 over \$1 million dollars. Is that correct?

23 MS. MARILYN MCLAREN: Yes.

24 MR. WALTER SARANCHUK: Can you give some
25 indication as to just what kind of claims those were?

1 Are they head injury claims, are they
2 paraplegic, do you know off hand?

3 MS. MARILYN MCLAREN: No, I don't know off
4 hand.

5 MR. WALTER SARANCHUK: Looking at the
6 motorcycle study if you will, as filed by the Corporation at
7 AI-16, this was filed in response to the Board Order last
8 year and this is addressed in Volume 1 at SM-8.4:

9 " That the Corporation gathered data and
10 studied the causes of motorcycle risk to
11 assist in the categorization of and -- of
12 motorcycle accidents and investigate
13 whether a form of graduated licensing
14 and/or a mandated training for a
15 motorcyclist would be appropriate and
16 report back to the Board at the next
17 general rate application."

18 So this was filed in response to that request,
19 is that correct?

20 MS. MARILYN MCLAREN: Yes.

21 MR. WALTER SARANCHUK: Now looking at the
22 findings in this report, turning to page 2 in Section A,
23 there is the heading quote:

24 "Motorcycles Are Inherently Risky."

25 End of quote. And there is some commentary

1 relative to that heading, if you could just elaborate on
2 that, Ms. McLaren?

3 MS. MARILYN MCLAREN: All the evidence we
4 have identifies the fact that motorcycles are a higher risk
5 than private passenger vehicles. Largely due to their lack
6 of protection for the motorcyclist and any passenger. We
7 looked at a couple of factors to sort of identify this more
8 clearly following through that point.

9 And if you look at the fact that the required
10 rate for each insured motorcycle after credibility waiting is
11 almost twelve hundred dollars (\$1200).

12 Where as private passenger vehicle required
13 rate would eight hundred and fifty-three dollars (\$853).
14 Claims costs per unit for motorcycles is almost thirteen
15 hundred dollars (\$1300) where it's about seven hundred and
16 fifty dollars (\$750) for private passenger vehicles.

17 Clearly the required rates are higher for
18 motorcycles. The claims costs are -- are significantly
19 higher for motorcycles and as the following sentence says:

20 "That's particularly compelling when you
21 consider that the vehicles are used for
22 less than half of the year."

23 MR. WALTER SARANCHUK: And there's reference
24 to the design of the vehicles as well.

25 MS. MARILYN MCLAREN: Yes, the design of the

1 vehicles themselves brings higher risk and that they're less
2 stable and more susceptible to loss of control.

3 MR. WALTER SARANCHUK: Now on page 3,
4 incidently the information in paragraph 1 dealing with the
5 required rate and the expected claims costs, it's taken from
6 TI-2 which is at Tab 1 in the Book of Documents, is that
7 correct?

8 MS. MARILYN MCLAREN: Yes, that's correct.

9 MR. WALTER SARANCHUK: Now looking at page 3
10 of your report and in that regard, the claims per one
11 thousand (1000) units, what can you tell us about that -- the
12 results shown in that table?

13 MS. MARILYN MCLAREN: The claims per thousand
14 (1000) insured units for motorcycles as compared to private
15 passenger vehicles, if you look at private passenger vehicles
16 just for the core motorcycle riding season is -- is
17 relatively comparable.

18 What we do see, though is that the claims per
19 one thousand (1,000) units for motorcycles has been
20 increasing and increasing at really more than twice the rate
21 as claims frequency for private passenger vehicles.

22 MR. WALTER SARANCHUK: And looking at Page 3,
23 and in particular, Paragraph 3, dealing with the percentage
24 of -- the table at the bottom by the way, entitled
25 "Percentage of Total Incurred To-Date Losses by Type of Claim

1 in the Five (5) Year Average -- and I guess this goes to the
2 point that you were making relative to the design of the
3 vehicle.

4 What can you tell us about the information
5 shown in that bottom table on Page 3?

6 MS. MARILYN MCLAREN: Most of the time when
7 private passenger vehicles are involved in a crash, the
8 occupants are uninjured. About 35 percent of the time, we'll
9 have an injury claim when there's been a vehicle damage claim
10 as well.

11 When you look at motorcycles, over 80 percent
12 of the time that there is a crash, there's also an injury
13 claim. If the motorcycle crashes, it's almost guaranteed
14 that there'll be an injury claim going along with it.

15 MR. WALTER SARANCHUK: And then looking at
16 the information in the table at Page 4, essentially on that
17 same topic, what can you tell us about the five (5) year
18 average for motorcycles and for private passenger vehicles on
19 motorcycle claims by type?

20 I'm looking at the 53.4 percent versus the
21 12.3 percent. This is on Page 4 -- the top table, Motorcycle
22 Claims by Type and Motorcycles Five (5) Year Average and
23 Private Passenger Five (5) Year Average.

24 MS. MARILYN MCLAREN: Yeah, when you look at
25 -- the previous page we were looking at the -- the costs of

1 claims -- 80 percent of costs of motorcycle claims. I should
2 clarify that -- 80 percent of the costs of motorcycle claims
3 are related to injury claims, not 80 percent of the time that
4 there's a crash. So I should clarify that.

5 This table shows the -- the frequency. So
6 fifty (50) -- 50 percent of the time that a motorcycle
7 crashes, there's an injury claim along with it, whereas for
8 private passenger vehicles, it's -- it's a little over 12
9 percent of the time that there's a passenger vehicle crash,
10 there's an injury claim that goes with it.

11 MR. WALTER SARANCHUK: And does this go to
12 the question of the design of the vehicle?

13 MS. MARILYN MCLAREN: I think both tables --
14 the previous table that we talked about in terms of how the
15 costs are shared between injuries and -- and vehicle damage
16 and the likelihood of receiving an injury claim both speak to
17 the inherent design of motorcycles. Yes. The differences
18 between the design of motorcycles and the design of passenger
19 vehicles.

20 MR. WALTER SARANCHUK: And in your report at
21 the bottom of Page 4 and Paragraph 5, there's reference to
22 the single vehicle accidents experience compared to passenger
23 vehicles.

24 What can you tell us about the results there?

25 MS. MARILYN MCLAREN: Generally speaking,

1 vehicle is involved in an accident with an animal, like a
2 deer crossing the road, is that considered a single vehicle
3 accident?

4 MS. MARILYN MCLAREN: Yes.

5

6 CONTINUED BY MR. WALTER SARANCHUK:

7 MR. WALTER SARANCHUK: Now turning to Section
8 B of the report, with the heading, quote:

9 "The Motorcycle Risk Pool is Changing."

10 End of quote.

11 What are your findings on the factors that
12 take that -- or lead you to that conclusion?

13 MS. MARILYN MCLAREN: Well, first of all,
14 recent history shows that the number of motorcycles is
15 increasing, and not only are they increasing as -- as we
16 talked about a couple of days ago, the vehicle pool as a
17 whole is increasing, but motorcycle units, the number of
18 motorcycles on the road is increasing faster than the -- than
19 the number of private passenger units on the road.

20 Over the last five (5) years we've seen a 5.3
21 percent increase per year, on an average, whereas 1.3 percent
22 on average, for private passenger vehicles.

23 Motorcycle owners are becoming more likely to
24 be entitled to full merit discounts. In 1996 there -- 30
25 percent of the motorcycles insured were insured with no

1 discount, today there's only 20 percent or 18 percent insured
2 with no discount.

3 But even though it would appear that lower
4 risk drivers are owning and registering motorcycles, that's
5 not translating into fewer claims or lower cost claims.

6 The number of claims has been increasing
7 significantly. Faster than the number of motorcycles.
8 Ideally if you can't expect a decrease in claims frequency,
9 it would be nice if it stayed the same, when the units are
10 increasing the claims per thousand (1,000) units -- would be
11 nice if that stayed stable, but it's increasing even faster
12 than the number of units is increasing.

13 MR. WALTER SARANCHUK: And this is -- you're
14 now referring to --

15 MS. MARILYN MCLAREN: Yes.

16 MR. WALTER SARANCHUK: -- to the top table on
17 page 7?

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

19 MR. WALTER SARANCHUK: Going back to the
20 table on page 6 in the middle of the page, the comparison of
21 motorcycle units to private passenger units.

22 You say that the growth in the number of
23 motorcycle units is greater than that in the private
24 passenger class, is that correct?

25 MS. MARILYN MCLAREN: Yes, that's correct.

1 MR. WALTER SARANCHUK: What does that say
2 about this commentary that we've heard, that the high
3 motorcycle premiums will dissuade people from owning
4 motorcycles and registering them?

5 MS. MARILYN MCLAREN: Well, certainly in --
6 in the recent history, I think it disproves that statement.

7 MR. WALTER SARANCHUK: Is there a reason that
8 the Corporation believes is valid for the apparent trend in
9 the increase in number of motorcyclists, notwithstanding the
10 premiums, if you will?

11 MS. MARILYN MCLAREN: I -- I think the number
12 of motorcycles on the road is increasing in a -- you know,
13 many jurisdictions. I think you need to put this information
14 together with the information that we may be reviewing in a
15 few minutes, with respect to the value of the motorcycles.

16 I think what information we have, indicates
17 that some people perhaps in you know, the forty (40) to
18 fifty-five (55) year age range are taking up motorcycling for
19 the first time, but also a number who gave it up through
20 maybe their late twenties and through their thirties and
21 early forties, are -- are taking it up again.

22 And I think when you look at the -- the value
23 of the bikes on the road, you see that there's a significant
24 investment being made, and there's a significant decision
25 being made to get back into an activity, I guess for a

1 variety of personal reasons.

2 Does it have to do with disposable income of
3 baby boomers, I'm not sure. Does it have to do with the
4 kinds of things as -- as we age, we choose to do with our
5 time, I'm not sure. But I think those are some of the
6 factors that have been pointed to in studies of motorcycle
7 sales and -- and in other jurisdictions, as we've talked
8 about. I think over the last few years, an increasing
9 concern in a number of jurisdictions about motorcycle
10 crashes.

11 MR. WALTER SARANCHUK: Yes, and you did refer
12 to the table -- top table on page 7, dealing with the
13 frequency of motorcycle claims. The trend as reflected in
14 that table is what?

15 This is the top table on page 7, dealing with
16 motorcycle claims frequency?

17 MS. MARILYN MCLAREN: It's increasing, yes.
18 I mean there was a -- there was a decrease last year for the
19 first time after four (4) years of significant increases.

20 MR. WALTER SARANCHUK: And of course, the
21 motorcyclists are on the road for half a year. I think you
22 eluded to that. That is reflected in the tables shown at the
23 bottom of page 7.

24 What can you show -- what can you tell us by
25 way of an explanation of the information shown there?

1 MS. MARILYN MCLAREN: The motorcycles for the
2 most part are on the road for about five (5) months. The
3 dependable riding season in Manitoba is from early May to the
4 end of September.

5 And based on that in 19 -- in 2001 we moved to
6 a seasonal rating approach where all premiums earned during
7 those five (5) months that the vehicles would continue to be
8 registered and insured for the twelve (12) months so that
9 people were not having to make a day to day decision
10 beginning in March and starting again in October, should I
11 insure the bike, how many decent days will I have?

12 We know that that's the primary season. We
13 earn all the premium there and intend to earn the premium
14 through those five (5) months to cover all losses throughout
15 the twelve (12) months. What we can see is that the claims
16 per thousand (1000) insured units has been increasing for
17 both the core riding season and the marginal season. But it
18 has increased particularly a large amount in the marginal out
19 of season area.

20 MR. WALTER SARANCHUK: Is there any reason
21 for that?

22 MS. MARILYN MCLAREN: Well I think what we
23 had is when people were having to make a decision, do I
24 insure in March, do I wait til April, should I wait til May,
25 there -- we were the -- the design in the insurance system

1 was an artificial barrier to motorcycle usage.

2 So now that we are earning a premium during
3 that five (5) months, they are riding more in the out of
4 season months and therefore there are more claims in the out
5 of season months.

6 MR. WALTER SARANCHUK: So there's no going
7 back on that seasonal rating or the season plan then?

8 MS. MARILYN MCLAREN: It wouldn't be our
9 intention to go back to where we were before. No, if we
10 decide how much we need to cover all the motorcycle losses
11 throughout the year and simply earn it during the five (5)
12 month period, I think that's a really reasonable approach.

13 If the motorcyclists themselves saw real
14 concerns with the seasonal rating, I think we would have to,
15 you know, think about that, but we certainly haven't heard
16 that from them.

17 And I think it makes sense from an
18 administrative point of view as well as a fairness point of
19 view and certainly still enables us to predict the revenue
20 that we need and to earn it during an appropriate period of
21 time.

22 MS. DENYSE COTE: Ms. McLaren, was there any
23 problem in the past when it was like the -- was there any
24 problem with motorcyclists still driving their bikes but not
25 being insured?

1 MS. MARILYN MCLAREN: Not a statistically
2 significant problem that we were able to identify at that
3 time, no. I think for the most part it was a problem that
4 the motorcyclist felt in terms of being unable to use their
5 bike for the few good days that they would have in any of
6 those marginal months.

7 MR. WALTER SARANCHUK: Turning to page 8 of
8 the report in paragraph 4, what is the impact of this
9 apparent movement that you refer to from smaller engines
10 towards much larger engines?

11 MS. MARILYN MCLAREN: I think we -- we
12 understand and we see evidence that larger powered
13 motorcycles, for the most part, there are some -- some
14 exceptions. Larger powered motorcycles tend to be higher
15 risk than lower powered motorcycles and as the pool moves
16 towards the larger end that probably brings more risk.

17 MR. WALTER SARANCHUK: And what about the
18 apparent trend of moving to higher value motorcycles. I
19 think you eluded to this earlier? This is shown in paragraph
20 5 on page 8.

21 MS. MARILYN MCLAREN: Yeah, at the bottom of
22 page 8. I think it increases the cost to the pool for
23 vehicle damage certainly when the units are of higher value.
24 I think there's also an impact that I don't know how we would
25 ever measure. But I -- I believe that there is certainly a

1 greater likelihood that if someone has a motorcycle sitting
2 in the garage that's worth twenty-five thousand dollars
3 (\$25,000), they're probably going to be significantly more
4 inclined to use it on regular basis than one that might be
5 worth three or four thousand dollars (\$3000/\$4000).

6 If you look at the table here at the bottom of
7 that page, we've got, you know, over -- slightly more than 13
8 percent of the bikes worth more than twenty thousand dollars
9 (\$20,000). So I think there is -- there has to be a factor
10 there related to the likelihood of the use of those bikes.

11 MR. WALTER SARANCHUK: And just looking at
12 that table, where do you get that the 13 percent of the
13 vehicles are worth more than twenty thousand dollars
14 (\$20,000)?

15 MS. MARILYN MCLAREN: If we -- Rate Group 7
16 is for vehicles insured to a value between twenty (20) and
17 thirty thousand dollars (\$30,000) and up from there. So if
18 you take the ten point one (10.1), plus the two point nine
19 (2.9), plus the zero point three (0.3), you're up somewhat
20 over 13 percent.

21 MR. WALTER SARANCHUK: Thank you. And now,
22 moving on to Paragraph 6 on Page 9 at the top, referring to
23 single vehicle accidents, what can you tell us about your
24 findings there?

25 MS. MARILYN MCLAREN: It's been increasing

1 significantly every year, year over year, the number of
2 motorcycle claims that involve only the motorcycle continue
3 to increase. I -- I certainly wouldn't suggest I have any
4 sort of explanation for that.

5 MR. WALTER SARANCHUK: Now, in terms of the
6 rate line shift or the differentials, this is addressed in
7 Interrogatory Number 40, posed by the Public Utilities Board
8 in the first round and this is shown at Tab 23 of the Book of
9 Documents.

10

11

(BRIEF PAUSE)

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MR. WALTER SARANCHUK: And also applicable
here in this discussion is SM-4.4(d) at Page 12 in SM-4
Volume 1.

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(BRIEF PAUSE)

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MR. WALTER SARANCHUK: With reference firstly
to SM-4.4(d), and the table on Page 12, could you please
begin by explaining what a rate line adjustment is, Ms.
McLaren?

23

24

25

MS. MARILYN MCLAREN: Yes, what we've done
with motorcycles is very similar to what we've been doing for
the last few years for private passenger vehicles and light

1 trucks, trying to make sure that the different rates charged
2 based on rate group are -- are reasonably reflective of the
3 underlying costs to provide the coverage for each rate group.

4 So you want to make sure that there's a good
5 link between the rate group and the costs, because the rate
6 group is a key driver of the premium that someone will have
7 to pay and you want to make sure that there is reasonable
8 differences between the costs for each rate group, again
9 based on underlying loss costs.

10 So what we've done is, we've identified the
11 fact that merely loss costs do not vary significantly,
12 whether it's a bike worth two thousand dollars (\$2,000) or
13 whether it's a bike worth thirty thousand dollars (\$30,000).
14 That's because 80 percent of the cost of claims is related to
15 injuries.

16 So we've begun to make some changes to the
17 relationship of the rate groups to each other and what we
18 know is that the rate groups at the bottom of the rate group
19 scale -- Rate Group 0 through to about four (4), need to move
20 up significantly, whereas the rate -- the rates charged at
21 the high end, up around Rate Group 9, I guess is the highest,
22 is reasonably appropriate to the cost of the coverage.

23 MR. WALTER SARANCHUK: So, in terms of the
24 distribution of the rate changes, noting Rate Groups 6
25 through to nine (9) are negative if not zero, as opposed to

1 Rate Groups 0 through to five (5), you've touched on that.

2 What kind of vehicles are we talking about or
3 what kind of units are we talking about in Rate Groups 6 to
4 nine (9)?

5 MS. MARILYN MCLAREN: Well, from seven (7) to
6 nine (9), about 13 percent of all bikes are up there in those
7 rate groups and I guess we could flip back to that other
8 table and see that there's almost 10 percent of the insured
9 units are in Rate Group 6. So about 23 percent of the
10 motorcycles overall, will not be seeing an increase, solely
11 due to rate line adjustments.

12 MR. WALTER SARANCHUK: So for the last six
13 (6) or sorry, last four (4) rate groups, does that pretty
14 well indicate that they are at their proper differential?

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

16 MR. WALTER SARANCHUK: And I note the comment
17 at the top of page 13, that the motorcycle rates will, on
18 average, increase 7.8 percent from the differential changes,
19 is that correct?

20 MS. MARILYN MCLAREN: Yes.

21 MR. WALTER SARANCHUK: Now, how will the
22 rates for the groups four (4) through to nine (9) be adjusted
23 on an overall basis, that is the rate line adjustment and the
24 experience adjustment?

25 MS. MARILYN MCLAREN: Yes, because the

1 Application contemplates limiting the overall adjustment to
2 motorcycles at 15 percent, with 7.8 percent coming from the
3 rate line adjustments, the balance will come through
4 experience based adjustments.

5 MR. WALTER SARANCHUK: And if you just take a
6 look at the last couple of pages of Tab 23, in terms of the
7 time for full implementation, what can you tell us in that
8 regard, based on -- at a high level, based on the information
9 shown in those last two (2) pages?

10 MS. MARILYN MCLAREN: Well, it really, at the
11 high end of the rate group scale, it -- it shows -- it is
12 really a reflection of the discussion that we've just had.
13 The fact that really six (6), seven (7), eight (8) and nine
14 (9) are -- are pretty much good as they are. Five (5) will
15 certainly be there this year, four (4) will for the most
16 part.

17 So, really what we're looking at is taking
18 many more years for some of the vehicles in Rate Group 1, and
19 as many as nine (9) years for many of the vehicles in Rate
20 Group 0.

21 MR. ERIC JORGENSEN: Ms. McLaren, could you
22 give us an indication, you mentioned Rate Group 7 is valued
23 twenty thousand (20,000) to thirty thousand dollars
24 (\$30,000), Rate Group 6, what would the value of vehicles in
25 that one (1) be?

1 MS. MARILYN MCLAREN: Fourteen thousand
2 (14,000) to twenty thousand (20,000).

3 MR. ERIC JORGENSEN: Thank you.
4

5 CONTINUED BY MR. WALTER SARANCHUK:

6 MR. WALTER SARANCHUK: Now, of course we know
7 that there's some element of capping in the rate line
8 adjustments, is that correct?

9 MS. MARILYN MCLAREN: Yes. Yes, we've capped
10 individual rate group adjustments at 15 percent.

11 MR. WALTER SARANCHUK: Yes, and Tab 38 in the
12 Book of Documents refers to Question number 26, asked by the
13 Public Utilities Board of the Corporation on the second
14 round. There -- that particular question refers to the
15 Question number 68, posed by CMMG on the First Round. That
16 is not in the book of documents that CMMG questioned.

17 But when referring to capping, what does that
18 mean?

19 MS. MARILYN MCLAREN: We -- we limit the
20 increase that would otherwise be calculated. And you can see
21 for example, rate -- you know, the Rate Group 0, the rates
22 pretty much need to double. Sometimes probably a little bit
23 more than double, but we're limited to 15 percent, seventy-
24 five dollars (\$75).

25 MR. WALTER SARANCHUK: And the -- again, the

1 reasoning -- the reasoning behind the capping?

2 MS. MARILYN MCLAREN: Was to limit the
3 increase to the motorcycle group as a whole to 15 percent and
4 to limit the rate line adjustment on any particular
5 motorcycle to 15 percent. There are some motorcycles
6 receiving increases significantly more than 15 percent, but
7 the overall increase to the pool has been limited to fifteen
8 (15).

9 MR. WALTER SARANCHUK: And of course this is
10 nothing new, insofar as motorcycles go? In terms of the
11 capping at 15 percent?

12 MS. MARILYN MCLAREN: That's right.

13 MR. WALTER SARANCHUK: And the rationale
14 behind the continuation of the capping?

15 MS. MARILYN MCLAREN: To limit the impact on
16 the vehicle owners in that class.

17 MR. WALTER SARANCHUK: What about
18 consideration of the actuarially indicated rates?

19 MS. MARILYN MCLAREN: You know, we -- we've
20 been in a bit of a situation here, where unlike other major
21 classes where the overall costs have been relatively stable
22 from year to year which is why we haven't needed overall
23 increases for many years.

24 The motorcycle class is continuing to have
25 more and higher cost claims every year. So when you, you

1 know, motorcyclists express their frustration that we keep
2 hitting them with 15 percent and it doesn't end. It doesn't
3 end because their costs never stop increasing.

4

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(BRIEF PAUSE)

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MR. WALTER SARANCHUK: Just bear with us for
one (1) moment please.

9

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11

MS. DENYSE COTE: Ms. McLaren, do you have
any statistics on how much of the motorcycle costs relate to
theft?

12

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MS. MARILYN MCLAREN: Motorcycle theft claims
are very low. In terms of the impact on the basic compulsory
program, there's no impact at all because motorcycles do not
have guaranteed access, compulsory comprehensive coverage.
They're not covered for hail or theft or vandalism claims
like that.

18

19

(BRIEF PAUSE)

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(BRIEF PAUSE)

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25

MR. WALTER SARANCHUK: Dealing with the sport
bikes in particular, in the prior applications, the Board was

1 asked to approve rate differentials for sport bikes. As I
2 understand it, the current differential is at one point two
3 one two (1.212) and you're currently requesting that that be
4 increased to one point two two five (1.225), is that correct?

5 MS. MARILYN MCLAREN: Could you provide the
6 reference for that?

7 MR. WALTER SARANCHUK: That's what we were
8 looking for. Just bear with us.

9

10 (BRIEF PAUSE)

11

12 MS. MARILYN MCLAREN: On page 2 of the
13 Application, the AP section in Volume 1, we've indicated that
14 the current differential is one point one one three (1.113)
15 and we're applying for a move to one point two two five
16 (1.225).

17 MR. WALTER SARANCHUK: Thank you for that.
18 Now, dealing with your study, page 10 Section C, with
19 reference to sport style motorcycles, the title on that page
20 is, quote:

21 "Sport Style Motorcycles Have Unique Risk
22 Characteristics."

23 Now at page 10 there are three (3) tables
24 containing various information. I wonder if you would
25 explain those please?

1 MS. MARILYN MCLAREN: If we focus
2 particularly on sport bikes we see that they make up about 15
3 percent, slightly less than 16 percent of the motorcycle
4 pool. And their claims frequency per thousand (1000) insured
5 units is two hundred and fourteen (214) claims for every
6 thousand (1000) bikes compared to anywhere between twenty-
7 three (23) claims per thousand (1000) bikes and forty-seven
8 (47) claims per thousand (1000) bikes for the other types.

9 If we look at the likelihood of being involved
10 in -- in single vehicle accidents, we see that the sport
11 bikes are more likely to be involved in single vehicle
12 accidents compared to the motorcycle pool as a whole. So
13 there are only about 16 percent of them -- they make up
14 almost half of the cost of claims and are more likely to be
15 involved in single vehicle accidents.

16 MR. WALTER SARANCHUK: All right. And -- so,
17 in paragraph 1, the point that you're making is that they
18 make up only 16 percent of the overall pool and yet account
19 for 47 percent of the claims? Is that correct?

20 MS. MARILYN MCLAREN: Yes.

21 MR. WALTER SARANCHUK: And that in respect of
22 sport bikes, looking at paragraph 2 and the table at the
23 bottom of page 10, that these bikes are more likely to be
24 involved in single vehicle accidents than are other, to the
25 tune of some 56.9 percent to 43.1 percent?

1 MS. MARILYN MCLAREN: Yes.

2 MR. WALTER SARANCHUK: Now, turning to page
3 12 and paragraph number 7, there's the assertion that sport
4 bikes are most likely to have their operators held to be at
5 fault for an accident. And there's a table underneath. I
6 wonder if you'd explain that, please?

7 MS. MARILYN MCLAREN: 63.3 percent of the
8 time the sport bike operator who was involved in an accident
9 is found to be 50 percent or more at fault. Overall,
10 motorcyclists are at fault 53 percent of the time so they, as
11 -- as a group, are more likely to be held at fault.

12 MR. WALTER SARANCHUK: Now, does this deal
13 with multi-vehicle accidents only or does it include single
14 vehicle accidents where 100 percent of the fault would be
15 assigned to the motorcycle class?

16 MS. MARILYN MCLAREN: It includes a single
17 vehicle and we've already showed that they are more likely to
18 be involved in single vehicle.

19

20

(BRIEF PAUSE)

21

22

23 MR. WALTER SARANCHUK: So, in light of that
24 answer that this includes single vehicle accidents, what
25 you're saying is that for all accidents where motorcycles are
involved, the sport bike is involved most of the time?

1 Is that evident from this table? Page 12.

2 MS. MARILYN MCLAREN: No, what that means is
3 63.3 percent of the -- of the claims involving sport bikes --
4 okay, so 63 percent of the claims with sport bikes. The
5 sport bike operator is held to be at fault.

6 MR. WALTER SARANCHUK: And so what does --
7 how do I interpret, then -- how does one interpret the bottom
8 line?

9 MS. MARILYN MCLAREN: 53 percent of the time,
10 when there is a motorcycle claim, the motorcyclist is held at
11 fault.

12 MR. WALTER SARANCHUK: And that includes
13 single vehicle accidents, as you indicated?

14 MS. MARILYN MCLAREN: Yes.

15 THE CHAIRPERSON: At fault includes fifty-
16 fifty (50/50) type assignments, too, I take it?

17 MS. MARILYN MCLAREN: 50 percent or more,
18 yes. Overall of the however many collision claims -- multi-
19 vehicle claims we have in a year. I think there's around a
20 hundred thousand (100,000) or so. I mean, less than 1
21 percent are ever settled on a fifty-fifty (50/50) basis.

22 MR. WALTER SARANCHUK: Now, before we proceed
23 - well, no, let's just continue on. At page -- Tab 35 --
24 sorry, twenty-five (25) of the Book of Documents, which was
25 the question 42, posed by the Corporation -- by the Public

1 Utilities Board on the First Round.

2 There's a table that was provided in response
3 to parts B and C of the question.

4 And referring to that table, what can you tell
5 us in terms of the Corporation's view of the adequacy of the
6 rate differential for sport bikes? So, for example, just
7 reviewing the table in terms of the impact on sport bikes,
8 that is the rate and the percentage increase?

9 The sport bike's line --

10 MS. MARILYN MCLAREN: What --

11 MR. WALTER SARANCHUK: -- is highlighted
12 there?

13 MS. MARILYN MCLAREN: Yes. What -- what this
14 shows is that the Application contemplates an overall
15 increase for sport bikes of 26.5 percent. Moving to the next
16 large column where it shows the sport bikes at the full
17 indicated rate adjustment.

18 If the Application had applied for full rate
19 sufficiency for sport bikes, it would have contemplated a
20 69.08 percent increase.

21 MR. WALTER SARANCHUK: And now turning to Tab
22 37, in the Book of Documents, and this is question 23, posed
23 by the Public Utilities Board in the Second Round of
24 Interrogatories.
25

1 (BRIEF PAUSE)

2
3 MR. WALTER SARANCHUK: There is an update
4 provided in respect of the rate changes for passenger
5 vehicles and motorcycle vehicles, if actuarially indicated
6 rate changes had been applied, an update of the table that
7 had been provided in response to the First Round
8 Interrogatory Number 1 by CMMG.

9 Now, with reference to the table provided, and
10 that appears on the second page of the Response, what can you
11 tell us in terms of the rate changes if the actuarially
12 indicated rate had been utilized, and as compared to the
13 capping system that was utilized?

14 MS. MARILYN MCLAREN: Well, if you look at
15 the far right column, which involves the motorcycles, and we
16 look at the lower part of the page, it shows that if we look,
17 for example, at the latest five (5) years, if the actuarially
18 indicated rate change had been applied to motorcycles over
19 the last five (5) years, they would have had a rate increase
20 of a 156.8 percent.

21 Go down to the next shaded area, and it shows
22 that the PUB approved cumulative percent increase for the
23 motorcycle pool was 74.8 percent. So, slightly less than
24 half what was actuarially indicated.

25 Compare that to private passenger vehicles

1 over the last five (5) years, they would have seen a
2 cumulative 12.1 percent decrease. Instead have seen a
3 cumulative 2.8 percent increase.

4

5

(BRIEF PAUSE)

6

7

MR. WALTER SARANCHUK: So, what does that say
8 about the cross-subsidization by passenger vehicles?

9

MS. MARILYN MCLAREN: There has been some.
10 There has been some to the tune, for the motorcycle group, of
11 about 80 percent of what they otherwise would have received.

12

MR. WALTER SARANCHUK: Is that meaning that
13 had there been no cross-subsidization, that passenger
14 vehicles premiums would have been approximately 15 percent
15 less?

16

MS. MARILYN MCLAREN: About 12 percent, and
17 this really just compares the two (2) classes, so there would
18 have been slight differences to those, if you look at the
19 pool as a whole. But for the most part, the private
20 passenger class, as the significantly larger -- largest
21 class, picks up most of the cross-subsidization, yes.

22

THE CHAIRPERSON: Wouldn't be under that
23 interpretation, be 15 percent, wouldn't it be the twelve
24 point one (12.1) plus the two point eight (2.8)?

25

MS. MARILYN MCLAREN: Yes, my mistake.

1 MR. WALTER SARANCHUK: So that the rates for
2 passenger vehicles would have been in the order of 14 percent
3 or 15 percent less?

4 MS. MARILYN MCLAREN: Than they are under
5 this Application today, yes, over the last five (5) years.

6 MR. WALTER SARANCHUK: And of course we heard
7 early in this proceeding that rate shock is not an inviolable
8 principle for MPI. And given the view of the Corporation
9 that bikes are inherently risky, why limit the rates at all?
10 In other words why limit the rate increases at all?

11 MS. MARILYN MCLAREN: I think the -- one (1)
12 of the most important principles that we operate with is --
13 is one (1) of rate stability. And while, you know, there's
14 nothing special about 15 percent in terms of labelling that
15 as rate shock and 17 percent doesn't and so on and so forth.

16 We did take a different approach last year.
17 We applied for an overall increase of 20 percent for
18 motorcycles which was rejected by the Board. I think we have
19 a situation where because the costs increase every year, we
20 simply can't catch up.

21 So I think we need to consider -- consider
22 looking at this issue. I think the issue certainly now can
23 be mitigated by the fact that at least some of the
24 motorcycles are rated where they should be. I think that's
25 encouraging.

1 But I think we do need to consider the context
2 of stability that something should be reasonably predictable
3 for our customers in any given year unless there's really a
4 compelling reason for it not to be predictable. But are you
5 asking if -- if we are committed to for ever limiting
6 increases to motorcycle pool as a whole to 15 percent, we're
7 not.

8 MR. WALTER SARANCHUK: And is that a
9 consideration that is essentially reviewed every year?

10 MS. MARILYN MCLAREN: For sure. Definitely.
11 And I think we look at the circumstances with respect to cost
12 stability, you know, which there has been no cost stability
13 for this particular group. It's increasing all the time.

14 We get better and better information about
15 what's driving those costs. That's why this year we've
16 tackled both the rate line and another increase of about 10
17 percent to the -- to the differential for sport bikes.

18 We know we've got an issue with sport bikes.
19 We know we have an issue with the rate line. We've tackled
20 both of those aggressively. That's why some motorcyclists
21 are seeing 32 percent increases. So there's nothing magic
22 about 15 but you can see that we don't think there's anything
23 magic about 15 with the Application because we've hit a
24 number of motorcyclists with significantly larger increases.

25 We've got three (3) years of data now about

1 sport bikes. We've learned some things here in the
2 motorcycle risk study that we're going to want to take a
3 harder look at. We may find after further analysis that
4 there might be a good argument to have two (2) different rate
5 lines, one (1) for sport bikes, one (1) for all other bikes.
6 We don't know that right now at this point in time.

7 But we clearly know that the key areas that
8 we've hit and hit hard in this Application in terms of moving
9 up all bikes at the low end of the rate scale and hitting all
10 sport bikes with another additional 10 percent on the
11 differential side. We're definitely moving in the right
12 direction and haven't limited those to anything near 15
13 percent.

14 MR. WALTER SARANCHUK: Thank you, Ms.
15 McLaren. I'd like to now deal with the topic of loss
16 transfer. And I would ask you to explain the current system
17 in terms of assigning motorcycle claims losses. Does -- how
18 does that work in our jurisdiction and how, for example, does
19 that compare to Ontario?

20 MS. MARILYN MCLAREN: I guess the first point
21 I'd like to make is that we assign motorcycle claims costs
22 exactly the same way we assign every vehicles claims costs.
23 You have your -- your claims forecasting processes and your
24 analysis of claims costs and then you have to figure out what
25 to do with those costs from the rate setting perspective and

1 the Autopac program is a first party insurance program. You
2 have insurance on your vehicle. You have injury protection.
3 You have guaranteed access to automobile insurance.

4 All of those -- all of those fundamentals of
5 Autopac are all on the basis of you as an individual, your
6 vehicle as an individual vehicle without regard to any other
7 person or action that might be involved in -- in your loss,
8 so your coverage is on a first party basis.

9 Because of that, and because of some other
10 very key factors, we believe it's really important that in
11 terms of figuring out where to allocate the costs, you do
12 that on a first party basis as well.

13 So, if there's a claim involving a farm truck
14 from Brandon and a sedan from Winnipeg and they're involved
15 in a crash, both people are injured, it doesn't matter who's
16 at fault in terms of allocating the costs for rate making
17 purposes, the sedan costs are allocated to that insurance use
18 in Winnipeg; the farm truck costs are allocated to the farm
19 truck class in rural southern Manitoba. That's where the
20 costs go.

21 To -- to do this, really allows people as much
22 as possible to make conscious, informed decisions about the
23 risk that they're prepared to assume when they use the
24 roadway and particularly, from our perspective, they're --
25 they can make very informed decisions and have a great deal

1 of control about their cost of insurance. So, the costs are
2 allocated on that basis. We think it's fair, it's equitable
3 and it truly does give people the ultimate control over how
4 much they're prepared to pay for insurance by doing it that
5 way.

6 This is a system where everyone has guaranteed
7 access to insurance. That -- that's a key difference. You
8 mentioned Ontario -- between us and Ontario. The last time
9 we checked, I think out of about a hundred and some odd
10 companies offering auto insurance in the province of Ontario,
11 there were four (4) who were prepared to offer motorcycle
12 insurance. Through the political process whereby the
13 Government of Ontario many years ago now had moved to a -- a
14 threshold no-fault injury compensation system.

15 There was an arrangement that motorcycle
16 claims costs would be transferred to the at-fault party if
17 there was someone else at fault for that motorcycle and that
18 was basically the information we have from our consulting
19 actuary who provided the analysis and was directly involved
20 in that process was simply a political process where that was
21 the outcome.

22 It wasn't based on principles, it wasn't
23 based on anything other than a negotiation through a
24 political process.

25 Generally speaking, people I think, have the

1 assumption that, why wouldn't you simply just assign costs
2 based on fault? You know, I mean, that's where the action
3 happened. That's where the activity that really led to the
4 loss occurred. Why wouldn't you do it based on fault?

5 And I guess -- you know, from a rate setting
6 perspective, that's really only one (1) of four (4)
7 components and if you really believe that fault was the only
8 thing that mattered, you wouldn't have a classification
9 systems with four (4) components and I guess, taken to an
10 extreme perspective, you wouldn't have insurance. You know,
11 the people who were at fault pay for the claim and no one
12 else has to pay anything.

13 Generally, you know, it's not uncommon for
14 people to say to Manitoba Public Insurance, I didn't have an
15 accident, why did my rate go up? The principles of rate
16 setting is that you try as best as you can to put like people
17 and like vehicles together so that you can best predict their
18 cost to claims.

19 And if I can say to Manitobans, No, you may
20 not have had a claim, but overall in the all-purpose
21 insurance use in the City of Winnipeg you, as part of that
22 group, your costs went up by 5 percent last year. At least
23 they understand it is based on people just like them, using
24 their vehicles like them and when it gets really specific
25 from the vehicle rate group perspective it's, your vehicle

1 has proven to be a higher risk compared to all the other
2 vehicles insured as all-purpose in the City of Winnipeg. It
3 personalizes it and gives people a real ability to make
4 decisions based on that information.

5 Fault is just one (1) of four (4) factors and
6 fault in no way, shape or form, helps us predict the cost of
7 accidents. The cost is significantly driven by the type of
8 vehicle.

9 The likelihood of accidents is largely
10 dependent on -- you know -- Winnipeg has lots more claims per
11 thousand (1,000) units than does rural Southern Manitoba.
12 All purpose vehicles have more claims than pleasure use
13 vehicles.

14 So all -- you know, there -- there are
15 different factors that consider frequency, likelihood of an
16 accident. The biggest factor that we have in terms of the
17 private passenger side is the make, model, model year vehicle
18 is our best predictor of cost. You can insure a vehicle in
19 Winnipeg for less than three hundred dollars (\$300), you can
20 pay twenty-five hundred dollars (\$2500), based on the make,
21 model, model year of vehicle.

22 We don't do anything different for motorcycles
23 as we do for everything else. The single greatest factor as
24 to what a claim is likely to cost us is in that particular
25 situation, the fact that it's a motorcycle, for all the

1 things that we've talked about earlier this morning.

2 So, we do it on a first party basis. The
3 Societe in Quebec, does exactly the same thing, they charge
4 different rates for motorcyclists compared to private
5 passenger vehicles, and exactly the same thing happens in
6 Saskatchewan. The only differences are tort jurisdictions
7 where the motorcyclist doesn't have the compensation
8 available, unless they can find another at fault party, and
9 then those costs are allocated on a third party suit basis.

10 But again, if you look at that in terms of the
11 actual rate making method, you allocate those third party
12 costs to the particular pools, but you have absolutely no
13 ability to do that in terms of specific vehicles, vehicle
14 make, model, model year. The CLEAR rate groups are not
15 assigned on an ability to damage other vehicles basis, it's a
16 first party system.

17 MR. WALTER SARANCHUK: So, essentially you
18 proceed in assigning motorcycle losses, on the basis that
19 there is this inherent risk in the operation of a motorcycle?

20 MS. MARILYN MCLAREN: We assign the costs
21 where the costs are paid, and by nature of the size of those
22 losses, and the frequency with which they occur, that's how
23 we conclude that they are inherently risky, absolutely.

24 MR. WALTER SARANCHUK: So, if we have two
25 vehicles approaching each other on a two (2) lane highway,

1 two (2) passenger vehicles, and one (1) crosses the centre
2 line, and causes an accident.

3 What happens in the assignment of the injury
4 costs to the innocent vehicle, or innocent motorist, if you
5 will?

6 MS. MARILYN MCLAREN: That innocent
7 motorist's claims costs are assigned to his insurance use
8 territory category. That's where they're assigned, exactly
9 the same way as it happens for every vehicle in the Province.
10 It happens on a first party basis.

11 The other piece of that though, is that if in
12 fact the one (1) who crossed the line and caused the accident
13 survives the accident, they will lose their merit discount,
14 be surcharged, they will pay a cost for that bad decision
15 making, failure to drive safely.

16 So there is always a cost associated with
17 accident causation, but it's not a rate making consideration,
18 because there's no predictive value in determining who's
19 going to mess up and what kind of vehicle they're going to
20 hit.

21 MR. WALTER SARANCHUK: And if you have that
22 same scenario with a passenger vehicle colliding with a
23 commercial truck that crosses the centre line, causing an
24 injury to the passenger vehicle operator, what happens in
25 terms of the assignment of the costs to cover the -- the

1 claim of the innocent motorist?

2 MS. MARILYN MCLAREN: Same scenario, the
3 costs are allocated where the claims are paid. And the
4 operator of that commercial vehicle would be subject to all
5 the sanctions of having that at fault accident.

6 MR. WALTER SARANCHUK: And in the case of a
7 commercial truck operator, would -- who would be innocent in
8 that kind of a scenario, if the passenger vehicle crossed the
9 centre line, what happens in respect of the allocation of the
10 costs for treatment of the truck driver?

11 MS. MARILYN MCLAREN: The costs are going to
12 be allocated to the particular vehicle categories where those
13 injury costs occurred, not based on fault.

14 In any scenario you can come up with, they
15 will not be allocated based on fault.

16 MR. WALTER SARANCHUK: And so if you have a
17 situation where the passenger vehicle on a two (2) lane
18 highway crosses the centre line and collides with a
19 motorcyclist, and what happens to the costs associated with
20 the treatment of the injury caused to the motorcyclist?

21 MS. MARILYN MCLAREN: Same scenario, the
22 costs will reside in the motorcycle pool.

23 MR. WALTER SARANCHUK: Now there is this
24 assertion that we know of over the years by the
25 motorcyclists, that there should be this loss transfer

1 mechanism imposed. And what is your understanding of that
2 assertion, and what is your reaction to it? I'm not asking
3 you to go into detail, but asking you generally?

4 MS. MARILYN MCLAREN: I've already done that
5 right?

6 MR. WALTER SARANCHUK: The latter part, yes.

7 MS. MARILYN MCLAREN: The assertion has been
8 made for many years, we've put evidence before this Board, in
9 particular we did another major analysis last year, and was
10 filed as part of the 2004 Proceedings, I believe, at AI-16 as
11 well.

12 If it would be helpful to the Board that we
13 put that information back on the table we can certainly do
14 that in the next little while.

15 The Corporation's position is that the -- the
16 rate making methodology, which is not on a loss transfer
17 basis is -- is fair, is equitable, is reasonable, it -- it's
18 non-discriminatory, non-preferential, it gives people
19 ultimate control over how much they pay for insurance. We
20 believe it's the right thing to do.

21 The other thing that we've shown, which hasn't
22 necessarily been reflected in some of the comments made from
23 the motorcycle side, is that it wouldn't matter very much in
24 terms of their costs.

25 The analysis that we put forward last year,

1 showed that if motorcycle rates were sufficient, which we all
2 know they're a long way from being sufficient. If they were
3 sufficient, and we move to a loss transfer approach, they
4 would reduce their costs by about eighty dollars (\$80) per
5 motorcycle. Not a significant amount, when you look at what
6 should be about a twelve hundred dollar (\$1200) average rate.

7 And the core reason for that, is that the most
8 costly motorcycle accidents, serious loss motorcycle
9 accidents, tend to be single vehicle accidents, or they tend
10 to be the fault of the motorcyclist. We looked last year at
11 almost \$26 million of serious loss motorcycle claims, and
12 found out that 1.6 million would leave the pool under a loss
13 transfer scenario. Almost nothing out of a \$26 million pool
14 of serious losses.

15 So, conceptually, on a principled basis, the
16 Corporation believes that the way it approaches this issue is
17 absolutely in the best interests of Manitobans, and the best
18 approach and having said that, a different approach would not
19 save motorcyclists much more than about eighty dollars (\$80)
20 overall.

21 MR. WALTER SARANCHUK: Is there a -- is there
22 a deterrent factor inherent in the loss transfer system?

23 MS. MARILYN MCLAREN: No, I don't believe
24 there is. I think the Bonus/Malus System serves as -- as the
25 deterrent factor. I don't think that there would be any

1 greater deterrent factor under a loss transfer methodology,
2 particularly when you couldn't even assign costs, based on
3 particular vehicle make, models, model years, that really
4 breaks down your ability to do that.

5 And I think the other thing is as much as I
6 ever learned about, you know, psychology and behaviour
7 modification, I think sort of the reaction to a behaviour
8 needs to happen very, very quickly and very directly in
9 relation to the behaviour.

10 Rate setting and Bonus/Malus surcharges tend
11 to happen well after the fact. And we tend to think about
12 those components more from the perspective as -- of -- of
13 risk assessment, a legitimate assessment of risk, as opposed
14 to a punitive action.

15 MR. WALTER SARANCHUK: I'm wondering if
16 that's a --

17 MS. DENYSE COTE: Ms. McLaren, does that mean
18 then the Bonus/Malus System won't have any effect on
19 behaviour, because it happens too far after the accident?

20 MS. MARILYN MCLAREN: I think the Bonus/Malus
21 component is a -- is a legitimate way to categorize risk.
22 And I think that there is conceptually, at the highest level,
23 people understand that appropriate behaviour earns them lower
24 cost insurance, and I think that value on that basis, but
25 it's also just as legitimate, simply on the basis of

1 assessing risk.

2 We know that people who get a number of
3 convictions are more likely to have an at fault accident.
4 That's why we charge people more for the demerit point
5 additional premiums. Not -- we don't charge them more
6 because we think if we charge them enough they'll stop having
7 speeding tickets. We know they're a higher risk. That's the
8 basis for having the demerit point additional premiums.

9 I think the other side of that is after people
10 have paid enough speeding tickets, they decide maybe they
11 should slow down. So I think -- I think there is sort of a
12 -- a link there, but it's much easier for us conceptually,
13 within the context of risk classification, to identify the
14 fact that it really, truly is a legitimate way to categorize
15 risk, and that's why we're charging you more, not to punish
16 you, but because you now present a greater risk than you did
17 last year, when you didn't have an accident, or had no
18 speeding tickets.

19 THE CHAIRPERSON: Ms. McLaren, does not the
20 approach suggest encouragement to acquire larger and larger
21 vehicles, as opposed to smaller, more fuel efficient
22 vehicles?

23 MS. MARILYN MCLAREN: I think the evidence
24 shows that people in larger vehicles tend to be safer than
25 people in smaller vehicles.

1 So, in terms of an insurance perspective,
2 helping people identify how to reduce their risk, they may be
3 better off buying bigger vehicles, even though they may be
4 less fuel efficient.

5 THE CHAIRPERSON: Thank you. We'll adjourn
6 now to 1:30.

7 MR. WALTER SARANCHUK: Just in the meantime,
8 if I can, just for the record, would you mind, Ms. McLaren,
9 having filed into the evidence, the loss transfer report from
10 last year, AI-16 last year? Is that okay?

11 MR. BRENT SANDERSON: Yes, we have that ready
12 for distribution and filing.

13 MR. WALTER SARANCHUK: Thank you

14

15 --- Upon recessing at 12:07 p.m.

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

17

18 THE CHAIRPERSON: Mr. McCulloch?

19 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman, Mr.
20 Barron is handing out four (4) separate responses to
21 undertakings that I would like to file as exhibits. The
22 first is Undertaking Number 1 which will be filed as MPI
23 Exhibit Number 8.

24 Undertaking Number 2 filed as MPI Exhibit
25 Number 9.

1 Undertaking Number 4 filed as MPI Exhibit
2 Number 10.

3 And Undertaking Number 5 filed as MPI Exhibit
4 Number 11.

5
6 --- EXHIBIT NO. MPI-8: Response to Undertaking Number 1.

7
8 --- EXHIBIT NO. MPI-9: Response to Undertaking Number 2.

9
10 --- EXHIBIT NO. MPI-10: Response to Undertaking Number 4.

11
12 --- EXHIBIT NO. MPI-11: Response to Undertaking Number 5.

13
14 THE CHAIRPERSON: That's fine.

15 MR. KEVIN MCCULLOCH: Thank you.

16 THE CHAIRPERSON: And you've also distributed
17 this extract from the prior year's Hearing?

18 MR. KEVIN MCCULLOCH: That was filed as --
19 just before lunch, that was filed and I thought that went in
20 as Exhibit Number 7, the loss transfer discussion?

21 THE CHAIRPERSON: Correct, yes.

22 MR. KEVIN MCCULLOCH: Thank you.

23 THE CHAIRPERSON: Mr. Saranchuk?

24 MR. WALTER SARANCHUK: Thank you, sir. Ms.
25 McLaren, we were talking about the concept of loss transfer,

1 would you agree that there is an element of that concept
2 utilized by the corporation in respect of determining
3 deductibles and surcharge levels and merit discounts? In
4 other words, a determination of fault.

5 MS. MARILYN MCLAREN: Yes, we certainly do
6 determine fault and the determination of fault has a cost
7 impact for those who are found at fault. Definitely, on the
8 premium rating side as well as the payment of deductibles.

9 MR. WALTER SARANCHUK: So if you are already
10 utilizing the -- the at fault principle in those respects, is
11 there much more involved to the introduction of loss transfer
12 or a fault system insofar as the allocation of motorcycle
13 losses go?

14 MS. MARILYN MCLAREN: No, the corporation has
15 never looked at this in terms of a -- a mechanical problem or
16 legislative problem. I think we had addressed those issues
17 in the document last year. There are no real legislative
18 barriers. There's no administrative barriers. We do assess
19 fault. That -- that's not the rationale for the
20 corporation's belief that the loss transfer approach is not a
21 -- an appropriate approach.

22 MR. WALTER SARANCHUK: And just referring to
23 your filing last year incidently now appearing as MPI Exhibit
24 Number 7 this year, your comments relative to the fact that
25 there are really no legislative or practical barriers are

1 addressed at pages 9 and 10 thereof, is that correct?

2 MS. MARILYN MCLAREN: Yes. And while there
3 are no legislative barriers, we believe there are significant
4 practical barriers.

5 MR. WALTER SARANCHUK: I see. So in terms of
6 the practical barriers, let me ask you just before we get
7 into that. Do you consider the current approach to
8 allocation to motorcycle losses as being fair to
9 motorcyclists?

10 MS. MARILYN MCLAREN: Yes, absolutely. And I
11 -- I do want to make the point again that we don't allocate
12 motorcycle losses on any different basis than we do anyone
13 else's losses.

14 MR. WALTER SARANCHUK: Would you state that
15 the lack of application by the corporation of a loss transfer
16 system is fair to motorcyclists? The fact that you don't
17 utilize it. Is that fair to motorcyclists?

18 MS. MARILYN MCLAREN: Is the fact that we do
19 not use loss transfer, is that fair? Yes, I believe it's
20 fair.

21 MR. WALTER SARANCHUK: And is it fair to
22 other vehicle classifications?

23 MS. MARILYN MCLAREN: Yes.

24 MR. WALTER SARANCHUK: And the reasoning
25 behind that is?

1 MS. MARILYN MCLAREN: Again, if we refer to
2 the document last year, the first page talking about the
3 rationale for the Corporation's approach.

4 We believe it's an appropriate approach
5 because it does treat all motorists and all vehicles
6 similarly and equitably. And makes appropriate use of
7 generally accepted means of assessing the likelihood of
8 claims cost frequency and severity. And insures that
9 motorists themselves will have the greatest possible impact
10 on how much they pay for automobile insurance by the choices
11 they make.

12 And they can exercise that free choice and
13 appropriate judgement. Those are -- are the reasons that we
14 think it's fair and appropriate.

15 MR. WALTER SARANCHUK: You do utilize a fault
16 system, if you will, in respect of those other matters that
17 we talked about -- deductibles and surcharges. Correct?

18 MS. MARILYN MCLAREN: The deductible is -- is
19 a very straightforward insurance mechanism to make sure that
20 Insureds pay a portion of the loss. All Insureds have to
21 pay a deductible unless there's someone else available to pay
22 that for them which is usually determined by fault, yes.

23 The risk classification system used at
24 Manitoba Public Insurance and used consistently throughout
25 the automobile insurance industry has four (4) components:

1 What is the vehicle? What -- Where is the vehicle used? For
2 what purpose is the vehicle used? And what is the risk
3 profile of the driver?

4 So the risk profile of the driver necessarily
5 uses accident fault as a basis for allocating premiums. But
6 there are people who pay demerit point additional premiums
7 and who fail to receive merit discounts solely based on their
8 Highway Traffic Act convictions who may not be at fault for
9 accidents. So there's certainly a fault component to bonus
10 malice, but it's not the only component.

11 MR. WALTER SARANCHUK: But you know the
12 argument that's advanced by some that if a motorcyclist is
13 innocent, if you will, in an -- in an accident, why should
14 there be any of the costs allocated to the motorcyclist?

15 Why, in the case of a fifty-fifty (50/50)
16 liability split should all of the costs be allocated to the
17 motorcyclist in respect of the -- the treatment of that
18 individual -- the motorcyclist's injuries?

19 What is the Corporation's answer to that, in
20 terms of fairness?

21 MS. MARILYN MCLAREN: I'll try very hard not
22 to repeat too much of what I said this morning. But the
23 principle of assessing risk, the principle of -- of rate
24 setting for a pool of vehicles is trying to assess both the
25 likelihood of a claim and the cost of a claim.

1 The cost driver in a situation where there's a
2 motorcycle claim is largely driven by the fact that the
3 motorcycle was involved. That's a risk factor of the
4 motorcycle.

5 Simply the fact that someone who may very well
6 have behaved m is largely driven by the fact that the
7 motorcycle responsibly for twenty (20) years, messes up and
8 causes an accident where a motorcyclist ends up being
9 injured, is not an accurate reflection of risk from a rate
10 setting perspective.

11 The cost of that accident is largely driven by
12 the decisions that the motorcyclist made. The fact that it
13 happened, was driven by the behaviour of the other vehicle
14 and we surcharge that person because of that behaviour. But
15 that's a small piece of the overall insurance risk profile.

16 MR. WALTER SARANCHUK: And in terms of the
17 practical impact or the practical drawbacks that exist,
18 according to the Corporation for the implementation of loss
19 transfer, if -- that's addressed in Page 9 of this report
20 which is now MPI Exhibit Number 7, as I understand it. And
21 there is a table that's referred to on that page. Would you
22 explain what is reflected in that table, please?

23 MS. MARILYN MCLAREN: The table referenced as
24 "Before Loss Transfer" is a reflection of the Corporation's
25 rate application last year on a first party basis as we've

1 always brought forward our rate application.

2 And the following table after loss transfer is
3 -- is if we assigned all loss costs based on -- based on
4 fault. And you can see that at the major class level there
5 will be significant rate dislocation with a move to loss
6 transfer.

7 On a percentage basis, it's reasonably small
8 for private passenger vehicles, but it's larger for some of
9 the other classes. I think that's an issue for people.

10 I think the other factor is that within the
11 major class level there will be significantly more
12 dislocation. And we would predict greater year-to-year
13 volatility as well that will make it very hard for the
14 individuals to have predictable rate impact based on
15 predictable loss costs.

16 If you turn the page to Page 10, we talked
17 about the fact that the relativity for all purpose in today's
18 world is -- was last year 94.6 percent but it would change to
19 101 percent, which is, you know, somewhere around a six and a
20 half (6 1/2) -- 7 percent change in the all purpose insurance
21 use.

22 I think you would see that kind of volatility
23 in many insurances uses below the major class level and --
24 and very likely see those kinds of changes from year to year
25 as well.

1 MR. WALTER SARANCHUK: Isn't the current
2 system holding down premiums for commercial and public
3 according to the table on Page 9?

4 MS. MARILYN MCLAREN: In relation to the
5 benefits paid to people in those categories, absolutely. And
6 as we talked about in relation to dealer plates, for example,
7 the commercial class has vehicles, for the most part, that
8 are lower rated implying lower risk vehicles. Whether it's
9 based on their value or their usage or whatever, the premiums
10 are lower.

11 So chances are, if you have a vehicle, whose
12 loss costs are lower, in collision with a vehicle from
13 another category who has higher loss costs, that would
14 explain why they would have to have higher rates under a loss
15 transfer model.

16 It doesn't mean that they are somehow being
17 unfairly advantaged with the current system, it's just a
18 reflection of the actual loss costs. It may be as simple as
19 the vehicles in the commercial class tend to be older than
20 the vehicles in the private passenger class.

21 MR. WALTER SARANCHUK: I appreciate that CMMG
22 will be dealing with its expert's report in detail, but at a
23 high level, what is MPI's position, relative to it? I'm
24 talking about the September 27th, 2004 IAO report prepared
25 for and filed by CMMG as Exhibit 3?

1 MS. MARILYN MCLAREN: Well, in general, there
2 were two (2) primary issues raised, the -- the loss transfer
3 issue which we've discussed back and forth with the CMMG many
4 different times and I think we have clearly articulated our
5 position.

6 We don't believe it is a reasonable approach.
7 We certainly don't believe that it's a reasonable approach to
8 just do loss transfer for motorcycles and not for any other
9 group.

10 The fact that we can't do it -- in -- in, you
11 know, intelligently, for all the other groups is certainly a
12 serious issue for us. And I guess the other issue that they
13 raised is the issue of credibility and credibility weighting.
14 And I think we've put our response to that discussion on the
15 record as well, but in very general terms, there are, you
16 know, three (3) readily identified accepted approaches to
17 credibility weighting.

18 We chose the one (1) that is most -- most
19 appropriate for our particular environment, have used it
20 consistently and -- and are satisfied that it produces
21 reasonable results for us.

22 If you used something like the approach
23 suggested in their report, there's no discussion at all of
24 what would be, sort of, the complement of that credibility.
25 And in another environment, you may be willing to use

1 national loss costs, for example, as the complement to the
2 credibility in that scenario used in their paper. We don't
3 think that's appropriate to a Manitoba environment.

4 The method that we've selected lets us use
5 Manitoba data exclusively, lets us use it in appropriate way,
6 balances the individual credibility of the individual groups
7 against the overall credibility of the Manitoba vehicle
8 population. We think that that's worked well and we think it
9 withstands scrutiny.

10 MR. WALTER SARANCHUK: Yes, thank you. Just
11 before leaving the concept of loss transfer, there has been
12 the suggestion that there should be some further
13 consideration to a loss transfer concept being introduced to
14 a specific vehicle type within a major class.

15 So, for example, if you have an SUV like a
16 Yukon which has caused the write-off of a small vehicle like
17 the Pontiac Firefly, there has been, as you are aware, much
18 discussion as to, if you'll pardon the pun, what the impact
19 would be in terms of the ultimate damage that's caused.

20 What can you say about the Corporation's
21 approach to that kind of a concept?

22 MS. MARILYN MCLAREN: I don't think the
23 approach of assessing vehicle risk on the basis of the damage
24 they could potentially cause to other vehicles is invalid on
25 its face. I think the key issue there is that we simply have

1 no mechanism to do that.

2 And I -- I can actually refer you to the Board
3 Order from last year's proceedings where there was a
4 discussion of the fact that, you know, the CLEAR system
5 assesses risk on a first party basis makes no attempt to
6 assess the extent to which a particular vehicle may damage
7 another vehicle if it's involved in a multiple vehicle
8 collision.

9 Their direct -- the CLEAR process is directly
10 linked to the first party principal. So if over time the
11 insurance loss data becomes more robust, becomes more
12 detailed as it becomes available to us in terms of that sort
13 of approach, it would certainly be something that we would
14 look at. But there is -- there's nothing available anywhere
15 that would have applicability to the Manitoba situation at
16 this point in time.

17 MR. WALTER SARANCHUK: And in terms of giving
18 consideration to developing that kind of data, what can you
19 tell us about the economics, for example, of that? And what
20 would be involved?

21 MS. MARILYN MCLAREN: Well for many years now
22 I guess better than ten (10) years, we've given all of our
23 claims cost data to the people at the Insurance Bureau to
24 help establish the CLEAR rate groups. They've got it all.
25 The reason we use this national vehicle risk rating system is

1 because the Manitoba data is far, far too sparse to make any
2 statistically reliable use of it.

3 So it's not necessarily an economic
4 consideration for us as much as we simply could never do
5 something like that on our own. We have given IBC data over
6 the years. We will certainly continue to give them that
7 data. They have occasionally contemplated what it would take
8 to start consider -- adding other considerations like that
9 but to this point in time they do not have a mechanism as --
10 either, even with the fact that they have national data
11 available to them.

12 MR. WALTER SARANCHUK: So there's no data at
13 the vehicle level, is that what you're saying?

14 MS. MARILYN MCLAREN: That's right. Vehicle
15 make, model, model year simply does -- we do not have the
16 data available.

17 MR. WALTER SARANCHUK: What about data from
18 the other jurisdictions where there is some element of loss
19 transfer?

20 MS. MARILYN MCLAREN: They don't have the
21 data on the vehicle basis either. It does not exist. The
22 CLEAR system which every insurer in the country uses for the
23 most part, certainly more than 80 or 90 percent of all the
24 insurers, sets rate groups on a first party basis; so the
25 data is simply not available.

1 MR. WALTER SARANCHUK: All right. Thank you.
2 I have a few followup questions in respect of the investment
3 aspect of the Corporation's operation. Mr. Galenzoski, you
4 indicated that the Corporation does have CFA's within its
5 investment working group, was that correct?

6 MR. BARRY GALENZOSKI: Yes, we have three
7 (3).

8 MR. WALTER SARANCHUK: Were there any
9 converging views from the -- were there any converging views
10 from the CFA's that perhaps the Corporation should stay with
11 its current asset mix?

12 MR. BARRY GALENZOSKI: I'll just correct my
13 previous answer. You said within the investment working
14 group how many CFA's. We have one (1) in the Investment
15 Committee Working Group. I have three (3) which is an
16 overlap of the one (1) that's on the Investment Committee
17 Working Group in my Investment Department.

18 And then with respect to the -- the Response,
19 which was the last question. No, they're of the same mind as
20 the Investment Committee Working Group.

21 MR. WALTER SARANCHUK: So these people did
22 review the Mercier Report?

23 MR. BARRY GALENZOSKI: Oh, absolutely.

24 MR. WALTER SARANCHUK: And you indicated that
25 MPI's employee's contributions are remitted to the Civil

1 Service Superannuation Fund?

2 MR. BARRY GALENZOSKI: That's correct, for
3 their pension portion.

4 MR. WALTER SARANCHUK: And do you acknowledge
5 that the Superannuation Fund invests in EAFE securities and
6 real estate?

7 MR. BARRY GALENZOSKI: I do not know what
8 they invest in.

9 MR. WALTER SARANCHUK: And have you reviewed
10 the investment practices of your counterparts, such as ICBC
11 and SGI, of late?

12 MR. BARRY GALENZOSKI: We review and we have
13 consultations with them on those matters, yes.

14 MR. WALTER SARANCHUK: And do they extend to
15 considerations of, say, real estate and foreign investments?

16 MR. BARRY GALENZOSKI: I believe that at
17 least SGI is in real estate, but I don't think ICBC is in
18 either of those.

19 MR. WALTER SARANCHUK: Is IC --

20 MR. BARRY GALENZOSKI: ICBC does have some
21 real estate investments, sir.

22 MR. WALTER SARANCHUK: Do either of them
23 extend their investment portfolio to international markets?

24 MR. BARRY GALENZOSKI: Not that I'm aware of.

25 MR. WALTER SARANCHUK: Fine, those are all

1 the questions that I have in that regard. My Colleague and
2 Learned Friend, Ms. Everard, will now ask a few questions
3 dealing with the operating expense aspect of the
4 Corporation's operations.

5

6 CROSS-EXAMINATION BY MS. CANDACE EVERARD:

7 MS. CANDACE EVERARD: If I could begin by
8 referring you to one (1) of the answers in the First Round of
9 the Information Requests, this is PUB number 30.

10 No, it's not -- it's not in the Book of
11 Documents. None of the documents that I'll be referring to
12 are in the Book of Documents.

13

14

(BRIEF PAUSE)

15

16 MS. CANDACE EVERARD: In particular, if you
17 could take a look at Schedule 1, attached to answer number
18 30. It would appear that this schedule is a list of MPI's
19 internal indicators, is that correct?

20

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

21

22 MS. CANDACE EVERARD: And for the purposes of
23 the record, I understand that this schedule is very similar
24 to document TI-7, although this schedule contains more
25 information, in that the -- it contains an outlook period, is
that correct?

1 MR. BARRY GALENZOSKI: Yes.

2 MS. CANDACE EVERARD: And can you explain
3 what MPI uses these internal indicators for?

4 MR. BARRY GALENZOSKI: Well, we use them to
5 just measure change over time with respect to the various
6 indicators, for -- for instance, the operating expense ratio,
7 if you look at that. We look to see how that's moving year
8 over year, and over a period of time.

9 MS. CANDACE EVERARD: And can you explain
10 with respect to the operating expense ratio, what that is a
11 ratio of, a ratio of what to what?

12 MR. BARRY GALENZOSKI: It's a ratio of -- any
13 of the ratios here are ratios of the particular item to
14 premiums earned.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE EVERARD: If you could look at
19 line 11 of the schedule, is it correct that that line
20 reflects operating expenses for the years indicated?

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

22 MS. CANDACE EVERARD: And it would appear
23 that from 1994 to 2004, the operating expenses have increased
24 by approximately \$19 million?

25 MR. BARRY GALENZOSKI: Yes.

1 MS. CANDACE EVERARD: And if I can take you
2 back to line 3, dealing with the operating expense ratio, in
3 particular, looking at, say, from approximately 2000 or 2001
4 through, it would appear that the ratio stayed fairly similar
5 from 2000 to 2003, and then has decreased from 2004 forward?

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

7 MS. CANDACE EVERARD: Are you aware of
8 whether other jurisdictions such as British Columbia and
9 Saskatchewan calculate an operating expense ratio on the same
10 basis as does MPI?

11 MR. BARRY GALENZOSKI: Well, if they didn't,
12 it would be easy to do, because you can just take the numbers
13 out of their Annual Report.

14 MS. CANDACE EVERARD: Looking back to the
15 first page of this IR, it would appear that the operating
16 expense ratio for ICBC in 2003, was six point eight (6.8) and
17 for SGI in 2003 was five point seven (5.7)?

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

19 MS. CANDACE EVERARD: And that's information
20 taken from the Annual Reports for those organizations?

21 MR. BARRY GALENZOSKI: Yes, that's how that
22 would have been calculated.

23 MS. CANDACE EVERARD: Now, looking back at
24 Schedule 1, it would appear that the ratio, that is the
25 operating expense ratio for MPI for 2003, was eight point

1 zero (8.0)?

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

3 MS. CANDACE EVERARD: Okay. To what extent
4 does MPI compare its operating expenses with those of other
5 jurisdictions?

6 MR. BARRY GALENZOSKI: Well, the only ones
7 they're really compared to are to the two (2) that you see
8 here, ICBC and SGI. And so we would do comparisons on an
9 annual basis to those.

10

11

(BRIEF PAUSE)

12

13 MS. CANDACE EVERARD: Okay, given your review
14 of those ratios on an annual basis, and in particular, the
15 information set out in Answer 1-30, what conclusions are you
16 able to draw with respect to MPI's performance?

17 MR. BARRY GALENZOSKI: Well, I would suggest
18 that you really can't draw many conclusions from these
19 things, because you really need to know how the two (2)
20 businesses or how the businesses you're comparing line up
21 with each other. You need to understand what parts of the
22 business you're looking at. You need to just know what --
23 you know, totally what's covered.

24 So you know, we really do put a cautionary
25 thing, whenever we're comparing these things, is that there's

1 a lot of unknowns. We each do similar things, but we do it
2 in a different manner. So it's a comparative purposes only,
3 that we put it up there. We're not drawing any conclusions
4 from it.

5 MS. CANDACE EVERARD: Okay, so your evidence
6 is that you don't do a comparison, because there are
7 differences in the products?

8 MR. BARRY GALENZOSKI: No, I said we do the
9 comparison, but we don't draw conclusions from that
10 comparison that you were asking me to do.

11 MS. CANDACE EVERARD: Okay. Now, I
12 understand that it's the goal of the Corporation in terms of
13 budgeting, that operating expenses be approximately half of
14 industry average, is that correct?

15 MR. BARRY GALENZOSKI: That's correct. That
16 is also including more -- it's including the premium taxes
17 and commissions included in that.

18 MS. CANDACE EVERARD: There's a document that
19 forms part of TI-7, it's Chart number 5. If I could refer
20 you to that?

21

22

(BRIEF PAUSE)

23

24

MR. BARRY GALENZOSKI: I have that.

25

MS. CANDACE EVERARD: In -- in Chart 5, the

1 extreme right hand column is -- is listed as industry. Would
2 that be the industry average that we were speaking of a
3 moment ago?

4 MR. BARRY GALENZOSKI: Yes.

5 MS. CANDACE EVERARD: So according to Chart
6 number 5, how does the results in terms of what the operating
7 expenses have been, compare to the goal of budgeting for half
8 of the industry average?

9 MR. BARRY GALENZOSKI: Well, this is a trend
10 analysis, this doesn't -- isn't useful in comparing that
11 whatsoever.

12 MS. CANDACE EVERARD: Okay. So what is it, a
13 document or what tool does MPI use to do those sorts of
14 comparisons?

15 MR. BARRY GALENZOSKI: Well, you -- you can
16 do the calculation on an individual year as to what our --
17 our ratio is. And then you look at the industry statistics
18 that are published on an annual basis and you compare their
19 expense ratio to our expense ratio.

20 And generally speaking just in rough terms on
21 the basic plan for instance, we'd be at about 14 percent, 15
22 percent total expense ratio. That's including our operating
23 expenses, premium taxes and commission. And the industry
24 would be slightly over 30 percent.

25 MS. CANDACE EVERARD: So on the whole MPI is

1 meeting that particular goal?

2 MR. BARRY GALENZOSKI: Yes, we are.

3 MS. CANDACE EVERARD: Now when we're speaking
4 about operating expenses, can you give us an idea of what
5 those operating expenses are representative of?

6 MR. BARRY GALENZOSKI: Certainly. Operating
7 expenses include all the administrative costs of the
8 organization but do not include costs directly associated
9 with the claim settlement process. Claims expenses are
10 included in the claims line in the -- above on the income
11 statement.

12 So the claims expenses would include things
13 like the salaries and building operation costs to operate all
14 of our claim centres, our salvage division, the legal
15 component associated with that. So all of those types of
16 expenses are the claims expenses.

17 Administrative expenses would include service
18 departments within the corporation. For instance, like
19 finance or human resources, those types of costs would be
20 included in there as well as their building costs and other
21 operating costs that they have.

22 You can further expand that then to include
23 the commissions and premium taxes that are paid on our -- to
24 our brokers and to the Provincial Government.

25 MS. CANDACE EVERARD: So to which category

1 would you say that the majority of operating expenses are
2 attributable?

3 MR. BARRY GALENZOSKI: Well the vast majority
4 are attributable to salaries. And then the next biggest head
5 would be information technology.

6 MS. CANDACE EVERARD: The next document that
7 I would like to look at is TI-9 and in particular TI-9
8 Schedule 'A'.

9 MR. BARRY GALENZOSKI: I have that.

10 MS. CANDACE EVERARD: This is in Volume 2,
11 Part 2. And if I understand Schedule TI-9-A correctly, it
12 represents the operating and claims expenses for the overall
13 corporation prior to any allocation?

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

15 MS. CANDACE EVERARD: And according to the
16 schedule for the year of the application, the overall
17 operating expenses are 140.2 million?

18 MR. BARRY GALENZOSKI: Yes, that's the
19 projected expenses.

20 MS. CANDACE EVERARD: And of that sum
21 according to this document compensation comprises
22 approximately 88.6 million?

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

24 MS. CANDACE EVERARD: And that would be
25 approximately 77.2 percent, subject to check?

1 MR. BARRY GALENZOSKI: I get it at 63.2.
2 That includes the employee benefits and health and education
3 tax. I'm sure the back row is checking my calculation and
4 will be tapping me on the shoulder if I'm the least bit
5 wrong.

6 MR. WALTER SARANCHUK: So are we.

7 MR. BARRY GALENZOSKI: So am I wrong?

8 MS. CANDACE EVERARD: So again looking at
9 TI-9-A, it would appear that compensation expenses have
10 increased from 2004/'05 to the projected sum for 2005/'06 by
11 approximately 2.4 million, is that correct?

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

13 MS. CANDACE EVERARD: It would also appear
14 that -- sorry. We can move onto document TI-9 Schedule B.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE EVERARD: So, if I'm reading this
19 correctly, out of the 140.2 million of -- of operating
20 expense for the overall Corporation according to TI-9(B),
21 approximately 118 million is allocated to basic. Is that
22 correct?

23 MR. BARRY GALENZOSKI: Yes, that's for claims
24 expenses, operating expenses, road safety and regulatory.

25 MS. CANDACE EVERARD: If I could turn your

1 attention to Document TI-11 relating to staffing levels.

2 MR. BARRY GALENZOSKI: I have that.

3 MS. CANDACE EVERARD: It would appear, looking
4 at this document, that year by year there's been an increase
5 in the number of employees rising from twelve hundred and
6 four (1,204) in 2000 to thirteen hundred and ninety (1,390)
7 in 2005.

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

9 MS. CANDACE EVERARD: And of course this is
10 exclusive of the new DDVL employees?

11 MR. BARRY GALENZOSKI: Yes, this is prior to
12 that.

13 MS. CANDACE EVERARD: I'm looking at some of
14 the particular categories on this document, specifically the
15 column for Claims Operations. It would appear that the
16 staffing increase in that area has gone from six hundred and
17 sixty (660) individuals in 2000 to seven hundred and seventy-
18 two (772) in 2005?

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

20 MS. CANDACE EVERARD: And what's the
21 rationale for that increase?

22 MR. BARRY GALENZOSKI: The rationale for the
23 increase is to meet our service levels as we've established.

24 MS. CANDACE EVERARD: It would also appear
25 that the staffing levels and Corporate Information Systems,

1 which is the third last column, has increased from a hundred
2 and six (106) in 2000 to a hundred and sixty-six (166) in
3 2005. Is that correct?

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

5 MS. CANDACE EVERARD: And what's the
6 rationale for that increase, particularly given the
7 cancellation of the Sybase Program?

8 MR. BARRY GALENZOSKI: I believe some of that
9 is due to just reorganizations in the organization where we
10 assigned other responsibilities to the -- this particular
11 area. It's now CIT Incorporated Resources. I believe in
12 2000 it was probably just CIT.

13 MS. CANDACE EVERARD: Is there an
14 anticipation that that staffing level in that particular
15 department will decrease in the future?

16 MR. BARRY GALENZOSKI: No.

17 MS. CANDACE EVERARD: And why not?

18 MR. BARRY GALENZOSKI: Well, a lot of the
19 work that was contemplated under the Sybase Project which was
20 cancelled was to be done through external contract, not
21 through internal resources, so the internal resources are --
22 are doing more of the things like the internal equipment
23 setup and -- and things along that line, so we don't see any
24 reductions at this time.

25 MS. CANDACE EVERARD: Okay. And of the

1 thirteen hundred and ninety (1,390) employees listed here for
2 2005, how many of them roughly are subject to a collective
3 agreement?

4 MR. BARRY GALENZOSKI: There's ninety-three
5 (93) management there that would not be subject to the
6 collective agreement and there would be some other
7 professional types like our special investigative units, HR
8 people, so let's say, add another thirty (30) or forty (40),
9 so around one hundred and thirty (130) I'd say were not
10 subject to the collective agreement.

11 MS. CANDACE EVERARD: And when was the
12 current collective agreement negotiated?

13 MR. BARRY GALENZOSKI: It was negotiated, I
14 believe, three (3) years ago and is up for negotiation this
15 coming September.

16 MS. CANDACE EVERARD: September of 2005?

17 MR. BARRY GALENZOSKI: That's correct.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE EVERARD: For '05/06, the year
22 that we're dealing with in the -- in this application, are
23 there any major changes upcoming arising from the collective
24 agreement or are things staying fairly --

25 MR. BARRY GALENZOSKI: Nothing arising from

1 the collective agreement.

2 MS. CANDACE EVERARD: Okay, the next document
3 that I would like to refer you to is an Information Request
4 from the Second Round, number 15 of the PUB, this is Second
5 Round, so 2-15.

6

7

(BRIEF PAUSE)

8

9 MR. BARRY GALENZOSKI: I have that.

10 MS. CANDACE EVERARD: Okay. This document
11 relates to special services and a \$2 million contingency that
12 has been built into the budget, that's correct?

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

14 MS. CANDACE EVERARD: And are there any
15 details available at this point in time of what project those
16 funds will be directed to?

17 MR. BARRY GALENZOSKI: No, we've put in a
18 provision for the Rate Application purposes, but we're just
19 in the midst of our budgeting process right now, so that
20 really won't be known until we get into the January time
21 frame of 2005.

22 MS. CANDACE EVERARD: Is -- is this a
23 provision that's been used for special services in the past?

24 MR. BARRY GALENZOSKI: Yes, we do this on a
25 fairly normal basis.

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: The next document I'd
4 like you to look at is an Information Request from CAC/MSOS,
5 it's number 1-23.

6

7

(BRIEF PAUSE)

8

9 MR. BARRY GALENZOSKI: I have that.

10 MS. CANDACE EVERARD: In particular, I'd like
11 you to look at Schedule F, this is still dealing with the \$2
12 million contingency provision.

13 Have you got that?

14 MR. BARRY GALENZOSKI: I have that.

15 MS. CANDACE EVERARD: According to this
16 schedule, looking along the -- the totals for '03/04, '04/05
17 and the projection for '05/06, it would appear that the
18 amount for special services in '03/04 was five hundred and
19 sixty-seven thousand (567,000) and change, and that the
20 amount for '04/05 was seven hundred and sixty-nine thousand
21 (769,000) is that right?

22 MR. BARRY GALENZOSKI: That's for the
23 category, special services, other? Because the entire
24 schedule covers special services, that's correct.

25 MS. CANDACE EVERARD: Looking at the

1 projection column for 2005/'06, which has the \$2 million
2 contingency built in, it would appear that but for that
3 contingency, the amount would be seven hundred and eighty-
4 three thousand (783,000), so it would be fourteen thousand
5 (14,000) more than the previous year, is that right?

6 MR. BARRY GALENZOSKI: Yes.

7 MS. CANDACE EVERARD: And when was the last
8 time that a contingency fund of 2 million was put into place?

9 MR. BARRY GALENZOSKI: Well, normally if it's
10 put into place, it's then reallocated into the various
11 projects that it would go to, so it would come out of there
12 and go into an appropriate budget, supporting an individual
13 project or multiple projects that would have been determined.

14 MS. CANDACE EVERARD: So has the allocation
15 ever been 2 million before?

16 MR. BARRY GALENZOSKI: Well, it would have
17 been 2 million, it could have been higher, depending on what
18 we saw coming. At one (1) point in time we were putting in I
19 believe \$8 million per year, when we thought the SYBASE
20 project was going to go ahead.

21 We then -- we've since this Application, we
22 have scaled that down so that it reflects what we think is
23 just normal operations.

24

25

(BRIEF PAUSE)

1 MR. BARRY GALENZOSKI: If you flip over the
2 next page, it's got a break down of all that and it shows the
3 \$2 million as -- as the second last item on that page.

4
5 (BRIEF PAUSE)

6
7 MS. CANDACE EVERARD: Thank you, I have
8 nothing further.

9
10 RE-CROSS EXAMINATION BY MR. WALTER SARANCHUK:

11 MR. WALTER SARANCHUK: I now will conclude
12 the Public Utilities Board cross-examination by dealing with
13 the topic of the DDVL and I would draw everyone's attention
14 SM-8.1 -- Section SM-8.1 in Volume 1 as well as the documents
15 at Tab 17, 18 and 34. That's 17, 18 and 34 in the Book of
16 Documents.

17 Tab 17 for the record is the -- question
18 number 20 asked of the Corporation by the -- on behalf of the
19 Public Utilities Board in the First Round.

20 Tab 18 is question 21 asked in the First Round
21 by the Public Utilities Board.

22 And Tab 34 being question number 9 asked by
23 the Public Utilities Board of the corporation in the Second
24 Round.

25 With reference to Section SM-8.1, dealing with

1 the division of driver and vehicle licensing, that is the
2 DDVL, I wonder if you could, Mr. Galenzoski, at a high level
3 just summarize what appears in that particular Section
4 SM-8.1.

5 MR. BARRY GALENZOSKI: Yes. This section
6 just outlines the -- the rationale behind the -- the transfer
7 of the division of driver and vehicle licensing to the
8 corporation. And that increases the corporation's mandate
9 and responsibility and that started as of April of this year.
10 I should add that the actual staff transfer occurred on
11 October 1 of this year. So they're just -- that's just
12 nicely happened.

13 It lays out the government established
14 objectives for the transfer of responsibility being the
15 improvement to customer service, save costs and become more
16 efficient by reducing overlap and duplication. And creating
17 a new model for meeting the licensing registration and
18 insurance needs of Manitobans. And that was the prime thing
19 that is indicated here.

20 MR. WALTER SARANCHUK: Now I note that
21 there's reference to the fact that the government established
22 three (3) objectives.

23 Where and how were those established in the
24 scheme of things? I mean, was this something in consultation
25 with the corporation or what?

1 MR. BARRY GALENZOSKI: Oh definitely it was
2 in consultation with MPIS.

3 MR. WALTER SARANCHUK: So the corporation had
4 some input in terms of establishing the three (3) objectives?

5 MR. BARRY GALENZOSKI: Yes.

6 MR. WALTER SARANCHUK: And can it be said
7 that implicit to -- in the objectives are for example that
8 the merger would not negatively impact insurance rates?

9 MR. BARRY GALENZOSKI: Yes, that's stated in
10 here also.

11 MR. WALTER SARANCHUK: And can it be said
12 also that another implicit objective would be that as a
13 result of the merger there should be no cost consequences to
14 the basic insurance?

15 MR. BARRY GALENZOSKI: Other than the -- the
16 shared cost would is a separate issue, yes.

17 MR. WALTER SARANCHUK: Now perhaps you could
18 just explain for the record, where in the scheme of things
19 DDVL's operations occur?

20 I mean as we understand it, it's the purchase
21 of drivers licensing and drivers licenses and the vehicle
22 registrations having been processed, but how does that
23 mechanism work?

24 MR. BARRY GALENZOSKI: Well right now the --
25 there was some division of those responsibilities that DDVL

1 have, they're responsible for vehicle registrations and
2 driver licensing and the whole driver licensing program. The
3 corporation has for a long time looked after the collection
4 or primarily looked after the collection of -- of vehicle
5 registration to the collection of the insurance premium at
6 the same time.

7 So we've delivered that system and that's all
8 fully automated in our brokers' hands through the auto pack
9 on-line system. The drivers licensing system was separate
10 and distinct to that. That was the responsibility of the
11 Driver and Vehicle Licensing Branch and they handle all
12 aspects of the drivers license programs.

13 MR. WALTER SARANCHUK: In rural areas, are
14 the renewal of drivers licenses handled through brokers?

15 MR. BARRY GALENZOSKI: In some cases, yes.

16 MR. WALTER SARANCHUK: So in the city, when
17 we're talking about the service performed by the broker for
18 DDVL, what is that limited to?

19 MR. BARRY GALENZOSKI: Well that's limited to
20 the collection of registration fees through the auto pack
21 on-line system. You're talking about the City of Winnipeg I
22 presume?

23 MR. WALTER SARANCHUK: Yes, sir. And what
24 fee is generated by the broker for processing those
25 registrations?

1 MR. BARRY GALENZOSKI: None.

2 MR. WALTER SARANCHUK: Now in terms of the
3 commissions paid to the broker, what are those for?

4 MR. BARRY GALENZOSKI: Commissions paid to
5 the broker is for the vehicle insurance and registration. We
6 basically calculate it being on the insurance premiums so for
7 all intents and purposes it relates to the collection of the
8 insurance premium.

9 MR. WALTER SARANCHUK: And what allocation
10 formula is applied to cover the broker's processing fee
11 relative to services on behalf on DDVL?

12 MR. BARRY GALENZOSKI: Well, there was no
13 allocation at that level. The allocation was a -- was a
14 negotiation between MPI and DDVL and we had the share cost
15 agreement and that -- in the -- in the final year, saw us
16 recovering about six (6) to \$7 million -- I'd have to get the
17 exact number -- \$5.7 million, I'm told.

18 MR. WALTER SARANCHUK: And when you talk in
19 terms of a shared cost agreement, does that mean because
20 there was a benefit to both parties?

21 MR. BARRY GALENZOSKI: Yes, we were providing
22 a service that DDVL did not have to duplicate.

23 MR. WALTER SARANCHUK: And with this new
24 arrangement with DDVL within the Corporation's operations,
25 now, does DDVL still not receive a benefit from the

1 processing of registrations?

2 MR. BARRY GALENZOSKI: Well, the benefit is
3 received, I guess, by the Provincial Government because they
4 get all those revenues now and they're responsible for
5 providing us with some reimbursement of the costs associated
6 with DDVL that were taken over, but they have terminated the
7 share cost agreement.

8 MR. WALTER SARANCHUK: So, is there -- is
9 there to be some fee arrangement with the Government?

10 MR. BARRY GALENZOSKI: Not for the share
11 costs, not.

12 MR. WALTER SARANCHUK: Is there to be any fee
13 arrangement to be arranged with the Government in any respect
14 arising out of this?

15 MR. BARRY GALENZOSKI: Well, with respect to
16 the costs for the operation -- operating expenses of the DDVL
17 that we're taking over, we will be recovering those -- those
18 base costs on an ongoing basis.

19

20

(BRIEF PAUSE)

21

22 MR. WALTER SARANCHUK: Now, is there to be an
23 allocation of the processing costs of the transactions
24 between Extension and Basic?

25 MR. BARRY GALENZOSKI: I'm not sure I

1 understand the question.

2 MR. WALTER SARANCHUK: If we talk in terms of
3 a registration and there is an extension element to it, is
4 there going to be a share of the cost provided through what
5 formerly was outside the Corporation, now within, as between
6 the Basic and the Extension side for the service rendered?

7 MR. BARRY GALENZOSKI: No, that portion has -
8 - is not being funded by government and therefore has
9 dropped. There is no registration associated with the
10 Extension portion of the business.

11 MR. WALTER SARANCHUK: So that basically --
12 essentially, the Basic Insurance Operation is -- is bearing
13 the cost of the DDVL operations to the tune of an additional
14 \$5.7 million?

15 MR. BARRY GALENZOSKI: No, they're bearing
16 the costs of the cancellation of the share cost agreement.

17 MR. WALTER SARANCHUK: What does that amount
18 to?

19 MR. BARRY GALENZOSKI: \$5.7 million.

20 MR. WALTER SARANCHUK: So, is there a
21 difference?

22 MR. BARRY GALENZOSKI: Just in the words,
23 that's all.

24 MS. MARILYN MCLAREN: It's not at all related
25 to the operation of DDVL, it's -- it was the Government's

1 contribution to broker commissions that's been eliminated, so
2 the Government contribution to broker commissions for
3 processing of mandatory registration and insurance has
4 ceased.

5 Basic used to receive the full benefit of the
6 Government's contribution, the Government's contribution is
7 gone, so Basic now has to fund the commissions related to
8 compulsory registration and insurance.

9 MR. WALTER SARANCHUK: Yeah, so who's picking
10 up that deficiency now?

11 MR. BARRY GALENZOSKI: Basic.

12 MR. WALTER SARANCHUK: So isn't Basic
13 effectively subsidizing the operations of the Extension side?

14 MR. BARRY GALENZOSKI: Absolutely not,
15 because there's no revenue coming to the Extension side to
16 offset that cost.

17 MR. WALTER SARANCHUK: Isn't there a
18 reduction of the Basic's -- \$5.7 million in the Basic's
19 coffers?

20 MR. BARRY GALENZOSKI: That's true but it
21 does not -- is not reliant or does not -- does not occur
22 within the scope of what we're doing in the Extension side.

23

24 (BRIEF PAUSE)

25

1 MR. WALTER SARANCHUK: So that essentially
2 nothing has really changed, in terms of the benefits derived
3 by the so called DDVL operation, from the broker's
4 operations. Nothing has really changed there, there's still
5 a benefit derived isn't there?

6 MR. BARRY GALENZOSKI: Well, there's nothing
7 changed in the broker's office, they're doing exactly what
8 they were the day before and the day after. They were
9 unaware of this transfer of funds that the Provincial
10 Government funded through DDVL.

11 MR. WALTER SARANCHUK: And so it was the
12 Corporation in the first instance that paid the commissions
13 to cover that off?

14 MR. BARRY GALENZOSKI: And we will continue
15 to do that.

16 MR. WALTER SARANCHUK: And the difference is
17 that there is no reimbursement to the tune of some \$5.7
18 million?

19 MR. BARRY GALENZOSKI: That's correct.

20 MR. WALTER SARANCHUK: But you're not
21 prepared to agree that that is now an expense borne by the
22 Basic?

23 MR. BARRY GALENZOSKI: No, the expense is
24 borne by Basic entirely, we are prepared to agree with that.

25 MR. WALTER SARANCHUK: And are you prepared

1 to agree that there is now a lack of a subsidization of
2 Basic, in respect of those same services?

3 MR. BARRY GALENZOSKI: There's a lack of
4 funding.

5 MR. WALTER SARANCHUK: Isn't that the same
6 thing?

7 MR. BARRY GALENZOSKI: Well, I guess it's --
8 again, it's words. I'm not going to -- to mince the words,
9 it's a lack of funding. We do not have those funds flowing
10 to us.

11 MR. WALTER SARANCHUK: And how was -- how was
12 the decision reached to include DDVL on the extension side of
13 the Corporation?

14 MR. BARRY GALENZOSKI: I think we outlined
15 that in the -- in one (1) of the Responses, and I'll just
16 look that up.

17

18 (BRIEF PAUSE)

19

20 MR. BARRY GALENZOSKI: Yes, if we look under
21 -- under Tab 17, Response to Part D.

22 "Because the Basic compulsory program is
23 subject to review and approval of rates
24 through the Public Utilities Board process,
25 the Corporation decided to ensure that

1 these additional functions did not affect
2 that program."

3 MR. WALTER SARANCHUK: Yes, I was hoping that
4 that wasn't the rationale, it's stated to be such, but what
5 difference does it make to MPI whether it's on the Extension
6 side or the Basic side?

7 MR. BARRY GALENZOSKI: Well, the intent here
8 is to keep the Basic side at the regulated level. In other
9 words, everything that we do in Basic is -- is regulated
10 through this process, as far as monies that we charge in the
11 -- in the process.

12 So, we wanted to keep this thing away from
13 that because of that requirement.

14 MR. WALTER SARANCHUK: But why shouldn't the
15 operations of DDVL fall within the purview of the Basic side
16 and Basic -- and essentially the purview of this Board?

17 MS. MARILYN MCLAREN: Well, I think because
18 the legislation that speaks to the Public Utility Board's
19 role with respect to Manitoba Public Insurance, talks about
20 rates for service for compulsory insurance.

21 The DVL operations, while they certainly --
22 while they certainly are in -- in some cases, tightly linked
23 with the delivery of compulsory insurance, the basic
24 compulsory Autopac premium, does not need to include a
25 consideration for DVL functions.

1 So the rates for services that we ask PUB to
2 approve don't have a component to cover off DVL costs. The
3 other thing is -- is there is nothing in anyone's legislation
4 that says the PUB would be approving registration fees,
5 driver licensing fees, or any of those other fees associated
6 with DVL activities.

7 So, in terms of trying to understand the
8 legislation that governs our activities, understanding
9 clearly how we have to defend and justify the rates charged
10 for delivery of compulsory automobile insurance, the DVL
11 activities are not part of that equation.

12 MR. WALTER SARANCHUK: Is -- does -- is --
13 does DDVL -- or, yeah, does DDVL's operations have anything
14 to do with extension insurance?

15 MS. MARILYN MCLAREN: No, not directly, no.

16 MR. WALTER SARANCHUK: And do you sell
17 anything that's -- is there anything sold on the extension
18 side to the benefit of DDVL?

19 MS. MARILYN MCLAREN: No, there's not --
20 there's -- there's no direct link between the operations and
21 the activities of the extension book of business.

22 It was simply a mechanism to flow the
23 operating expenses through that mechanism, to ensure that the
24 basic compulsory could continue to stand on its own, be
25 transparent in its operations, and that we wouldn't be

1 muddying conversations about rates charged for compulsory
2 insurance with that operation.

3 MR. WALTER SARANCHUK: Well if it doesn't
4 have anything to do with the extension side, it must have
5 something to do with the basic side. Wouldn't you agree?

6 MS. MARILYN MCLAREN: Well some of it -- the
7 driver licensing function has a compulsory insurance
8 component. The vehicle registration function has a
9 compulsory insurance component. But there are driver testing
10 operations, there are medical records functions, there's
11 vehicle inspection functions and all kind of other things
12 that don't have a direct relationship with anything that
13 Manitoba Public Insurance does.

14 MR. WALTER SARANCHUK: But at least there is
15 some link to the basic as opposed to extension, where there's
16 none?

17 MS. MARILYN MCLAREN: True. But therefore
18 what? We're still talking about trying to find an
19 appropriate means of living within the legislation that
20 governs our activities here in this forum.

21 MR. WALTER SARANCHUK: Let me ask you. How
22 was the decision reached to have DDVL incorporated into the
23 extension side? Were there consultations with government?
24 Was this a government decision? Was this a decision by MPI?
25 Was it a combination of both? How did you -- how did

1 somebody arrive at this decision and who was it?

2 MR. BARRY GALENZOSKI: It was a decision
3 within the Corporation and between management and the Board
4 of Directors. So management looked at the overall situation
5 and made recommendations to the Board and those were
6 accepted.

7 MR. WALTER SARANCHUK: And so ultimately the
8 decision was made by the Board of Directors of the
9 Corporation?

10 MR. BARRY GALENZOSKI: Ultimately they
11 approved the process.

12 MR. WALTER SARANCHUK: At the recommendation
13 of whom?

14 MR. BARRY GALENZOSKI: Myself.

15 MR. WALTER SARANCHUK: So in terms of the
16 reasoning that you utilized to make your recommendation to
17 the Board of Directors, can you highlight some of those?

18 MR. BARRY GALENZOSKI: They're highlighted in
19 the response to 'D'.

20 MR. WALTER SARANCHUK: All right. On that
21 score, I'm also looking at what you filed in SM-8.1 where you
22 talked about the government having established three (3)
23 objectives for the transfer of the responsibility. I don't
24 see the reference made that the Corporation established those
25 three (3) objectives. So how do you reconcile that?

1 MR. BARRY GALENZOSKI: Well we reconciled it
2 by the fact that we had input into this from the government.
3 We've -- we're entering into discussions with them and we
4 will be the ones that are required to deliver all of this.
5 So we're on -- on side with all of that.

6 MR. WALTER SARANCHUK: And looking at those
7 three (3) goals which are including the following:

8 "Improving customer service, saving costs,
9 becoming more efficient by reducing overlap
10 and duplication and creating a new model
11 for meeting the licensing, registration,
12 insurance and other needs of Manitobans.

13 Isn't that something that you would want the
14 Public Utilities Board to have some input in and monitor and
15 review and perhaps provide you with some guidance?

16 MS. MARILYN MCLAREN: I think the -- clearly
17 on the face of -- of the question in terms of, you know,
18 should there -- are -- are we not open to some discussion on
19 oversight and input? Absolutely. There's been questions
20 about DDVL and driver licensing activities in this forum so
21 far. We haven't refused to answer on the grounds that we
22 report through the extension line of business.

23 We are certainly open to discussion on these
24 topics. But the decision to put it into extension line of
25 business wasn't to keep anything hidden. It was to try to be

1 consistent with the legislation that applies to the
2 compulsory insurance program.

3 The costs to run DVL will be transferred from
4 government to MPI. We don't expect that -- if -- if we were
5 here saying, you know, we need a 6 percent rate increase
6 because we've now got to run DVL and we have no money and
7 please give us a rate increase, you'd absolutely be into that
8 forum; but we're not.

9 To continue to talk about costs and programs
10 of a part of Manitoba Public Insurance that is simply not
11 part of the compulsory insurance program, we didn't see that
12 it would serve a purpose. If there was a reason to include
13 it in another forum that would provide benefit to the parties
14 involved, we would have done that.

15 It's not in an effort to hide anything, it's
16 in an effort to try to keep the regulated portion of the
17 business in a -- in a clear, transparent forum, so that we
18 can all understand what we're talking about and be consistent
19 with our legislation.

20 MR. WALTER SARANCHUK: Please don't
21 misinterpret what I am suggesting. No one is for one (1)
22 moment suggesting that this was done to try to hide anything.
23 But in terms of assessing on behalf of Manitobans, whether or
24 not the operation is clear and transparent, what better forum
25 to do that than within these four (4) walls. That's the

1 point that I'm trying to make, and there's no question that
2 the Corporation has been cooperative, in -- in addressing
3 this particular issue.

4 But when you start looking at this a little
5 more closely and see for example, that the goals, and this is
6 in SM-8.1, represent an implicit expectation that the merger
7 will not negatively affect insurance rates, and we know on
8 the -- right from the get go, that this has a negative impact
9 of \$5.7 million on the basic operation, from that perspective
10 alone, I would suggest to you that perhaps this warrants some
11 reconsideration.

12 MS. MARILYN MCLAREN: I think those really
13 are two (2) very separate issues. The loss of the share cost
14 agreement is a specific issues that stands on its own, that
15 has an immediate \$5.7 million impact on the basic program.

16 That's not --

17 MR. WALTER SARANCHUK: That's annually?

18 MS. MARILYN MCLAREN: Yes, that's right,
19 annually. Not incrementally annually, but that much
20 annually. That is separate from the amalgamation of the two
21 (2) functions. The DVL operation becoming part of Manitoba
22 Public Insurance.

23 I would certainly expect it would be
24 legitimate for this process, for this Board to ask next year
25 or the year after that, you know, can you confirm that the

1 amalgamation has not forced rate increases on the basic side
2 of the business. And I think we have to be able to
3 demonstrate that.

4 But simply because the share cost disappeared
5 at the same time that the amalgamation happened, doesn't mean
6 that we somehow should have muddied the water by putting all
7 of this onto the table in one (1) place.

8 I really think the -- you know, to take a very
9 sort of clinical approach to some of the language that you
10 used in terms of sort of overseeing the new larger operation
11 of Manitoba Public Insurance, that would clearly be beyond
12 the authority of the PUB, according to legislation at this
13 time.

14 MR. BARRY GALENZOSKI: I might just also add,
15 Mr. Saranchuk, that the Corporation, through the various
16 governance processes, is reviewed and does -- is accountable
17 to its own Board of Directors, to Crown Corporation counsel
18 and to Standing Committee of the Legislature. So there --
19 you know, there's more than just one (1) body that we're --
20 we're in front of and discussing these types of matters on a
21 regular basis.

22 MR. WALTER SARANCHUK: Yes, and of course you
23 know that the mandate of the Public Utilities Board is to act
24 in the public interest and to protect the public interest.
25 And so all I'm suggesting to you is that, yes, you can

1 account to your Board of Directors, you can account to
2 Government, why not account to the public?

3 MS. MARILYN MCLAREN: Some of the forums that
4 Mr. Galenzoski mentioned are certainly public. And while we
5 fully acknowledge this Board's role with respect to the
6 public interest, it is within the legislation that exists
7 today, which talks about the rates for service for compulsory
8 auto insurance.

9 MR. WALTER SARANCHUK: Is DDVL
10 self-sustaining? In other words, do we know that the
11 drivers' registration fees equal the registration and
12 processing costs?

13 MR. BARRY GALENZOSKI: I think we know that
14 the registration fees on -- on driver's licenses and on
15 vehicles are higher than their processing costs.

16 MR. WALTER SARANCHUK: So this won't -- this
17 will not have a negative impact on the transfers from
18 extension to basic?

19 MR. BARRY GALENZOSKI: Well, if you look at
20 the numbers that we've put forward, you can see that there's
21 ongoing transfers, this contemplates DDVL being part of that
22 operation both this year and next.

23 When we look -- I think we -- we were just --
24 when we look at our projections from last year, compared to
25 what we're telling you for this year, there's more money

1 being transferred from extension than there was proposed in
2 the previous year.

3 MR. WALTER SARANCHUK: Yes, and just to
4 conclude, can we leave it, Ms. McLaren -- Ms. McLaren, on the
5 basis that the Corporation is still open, somewhere down the
6 line, to giving some thought to reconsideration of this
7 decision?

8 MS. MARILYN MCLAREN: The decision as to
9 where to house the -- I -- I think that will be reconsidered
10 periodically.

11 MR. WALTER SARANCHUK: Thank you. I have no
12 further questions.

13 THE CHAIRPERSON: Does Extension and SRE have
14 any employees prior to the transfer from DDVL?

15 MR. BARRY GALENZOSKI: Yes, they do.

16 THE CHAIRPERSON: Separate from Basic?

17 MR. BARRY GALENZOSKI: Yes, they do. They
18 have some direct employees and they share in all the service
19 areas.

20 THE CHAIRPERSON: Mr. Saranchuk?

21 MR. WALTER SARANCHUK: That essentially
22 concludes the -- the cross-examination on behalf of the
23 Public Utilities Board. Although, just following up on that
24 one (1) observation that or -- one (1) point that was raised
25 by the Chairman, with the inclusion of some three hundred

1 (300) employees, will the cost to the Basic side not be
2 impacted at all?

3 MR. BARRY GALENZOSKI: Keep in mind that
4 there's a recovery of -- of these costs so there -- there
5 shouldn't be any changes to the cost for Basic.

6 MR. WALTER SARANCHUK: So you're looking at a
7 full recovery of the costs other than the commissions?

8 MR. BARRY GALENZOSKI: Yes.

9 MR. WALTER SARANCHUK: Thank you. Those are
10 all the questions on behalf of the Public Utilities Board
11 unless the Panel has some questions.

12 THE CHAIRPERSON: Did you ask the Public
13 Utilities Board for its opinion on the placement of DDVL?

14 MR. BARRY GALENZOSKI: No.

15 THE CHAIRPERSON: Okay. Thank you. Mr.
16 Saranchuk, should we -- we're switching now to Mr. Williams?

17 MR. WALTER SARANCHUK: Yes, I believe Mr.
18 Williams is chomping at the bit, so we can proceed with him.

19 THE CHAIRPERSON: Mr. Williams do you want to
20 take the short break now or do you want to launch and then
21 break?

22 MR. BYRON WILLIAMS: Just for the purposes of
23 setup I'd recommend that we take a ten (10) minute break
24 right now, Mr. Chair, and then -- things will proceed more
25 smoothly

1 THE CHAIRPERSON: Very good, that'll work
2 great. Thank you.

3

4 --- Upon recessing at 2:46 p.m.

5 --- Upon resuming at 3:05 p.m.

6

7 THE CHAIRPERSON: Mr. Williams, I notice your
8 book isn't as big as our book.

9 MR. BYRON WILLIAMS: I don't mean to scare
10 you, Mr. Chair, but if you look at it, this is only Volume 1.

11 THE CHAIRPERSON: Do you want to begin now?

12 MR. BYRON WILLIAMS: Yes, and for the benefit
13 of the Panel and the MPI back row, I've distributed the
14 CAC/MSOS Book of References. I note that we did choose a
15 prettier colour, I believe, than Mr. Saranchuk chose, so...

16 In the course of the -- in the course of today
17 or early on Monday we'll also have some exhibits to present
18 which we've discussed with MPI, but I'll ask Mr. Barron to
19 hold off distributing them until the time is appropriate.
20 And just for the Panel, I -- I do, through you, want to thank
21 Board Counsel.

22 They've assisted CAC/MSOS in -- in two (2)
23 ways. One (1) is that they've reduced the number of areas
24 that we have to cover. Bonus/Malus is one (1) that we've
25 stroked off -- off our list. And secondly, they've also

1 focussed the debate, so we express our appreciation through
2 you to them.

3 I do want to just put a caveat in terms of my
4 comments to the -- the fact that we're not cross-examining on
5 Bonus/Malus doesn't mean that we won't have some submissions
6 in closing argument and secondly, on behalf of my clients,
7 I'm always mindful of duplication.

8 There are going to be some areas where we do
9 travel the same path as Mr. Saranchuk, but for a -- or Ms.
10 Everard -- but for a different purpose, so we'll try and keep
11 the duplication down, but by -- just by the necessity of the
12 discussion there will be a little bit. But we're ready to
13 proceed.

14 THE CHAIRPERSON: Anytime.

15

16 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Ms. McLaren, I'd like to
18 start with you and I'm going broadly describe this discussion
19 as being on the subjects of fairness, hockey, and cross
20 subsidization. So I wonder if I can get you to agree with me
21 that -- and I -- I believe you mentioned something similar to
22 this in your discussion with Mr. Saranchuk this morning.

23 And I wonder if you would accept this
24 definition of fairness. A fair rate -- rate system would be
25 a system where rates reflect the risk that a particular group

1 or class of vehicles owners bring to the system, would that
2 be a fair -- fair system?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: And a key object in your
5 rate design process is fairness between groups and classes,
6 correct?

7 MS. MARILYN MCLAREN: Yes.

8 MR. BYRON WILLIAMS: And we use groups and
9 classes because with, you know, with vehicle populations of
10 seven hundred thousand (700,000) or eight hundred thousand
11 (800,000), it's impossible to precisely define the risk for
12 each individual vehicle so we try to group similar types of
13 vehicles with similar types of risks; is that fair?

14 MS. MARILYN MCLAREN: Yes.

15 MR. BYRON WILLIAMS: And you've mentioned
16 this before in your discussion with Mr. Saranchuk so I'll
17 very briefly summarize it. When you try and characterize
18 those risks, basically MPI characterized them in terms of
19 four (4) major risk characteristics. The first one (1) being
20 the -- where the vehicle is operated, the location IN the
21 province?

22 MS. MARILYN MCLAREN: Yes.

23 MR. BYRON WILLIAMS: The second being what
24 purpose the individual is using that vehicle for. Whether
25 it's all purpose, pleasure, or other?

1 MS. MARILYN MCLAREN: Yes.

2 MR. BYRON WILLIAMS: A third major element of
3 the classification is the type of vehicle that that person
4 chooses to drive, correct?

5 MS. MARILYN MCLAREN: Yes.

6 MR. BYRON WILLIAMS: And the fourth major
7 element would be the pattern of previous driving behaviour by
8 the individual involved, correct?

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

11 MR. BYRON WILLIAMS: And I want to turn to
12 those last two (2) criteria. Namely, the type of vehicle one
13 chooses to drive and secondly, the -- the type of way one
14 chooses to -- to operate the vehicle, driving behaviour. And
15 for the purposes of analogy I want to turn your mind to
16 hockey for a minute. Are you okay with that, Ms. McLaren?

17 MS. MARILYN MCLAREN: It wouldn't be my first
18 choice but go ahead.

19 MR. BYRON WILLIAMS: Well, I know you're an
20 avid cyclist. But I'm assuming that as a red blooded
21 Canadian, you have some familiarity with the sport of hockey.
22 Would that be correct?

23 MS. MARILYN MCLAREN: Yes.

24 MR. BYRON WILLIAMS: And you're aware that
25 it's a fast paced game played on ice, correct?

1 MS. MARILYN MCLAREN: Yes.

2 MR. BYRON WILLIAMS: And you're also aware
3 that, at least for males over the age of ten (10) in
4 Manitoba, it's -- the great thing about hockey is that
5 there's degree of voluntary physical contact allowed,
6 correct?

7 MS. MARILYN MCLAREN: Okay.

8 MR. BYRON WILLIAMS: And I take it that
9 you're also aware that for the purposes of safety and for
10 fair play in hockey there are rules and -- penalties to deter
11 certain types of behaviour such as high sticking or elbowing
12 to the head. Would that be correct?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: Given your experience as
15 a red blooded resident of Canada, I take it you're also aware
16 that a hockey player, she or he may choose to wear certain
17 types of equipment to protect themselves, correct?

18 MS. MARILYN MCLAREN: Yes.

19 MR. BYRON WILLIAMS: And just to give you a
20 few examples. There's skates, there's helmets, there's face
21 masks, visors, mouthguards, would you agree with that?

22 MS. MARILYN MCLAREN: I imagine at least some
23 number of those would be compulsory equipment.

24 MR. BYRON WILLIAMS: We're going to get to
25 that in a few minutes. Oh, you're so clever. And I'm going

1 to ask you to keep your mind focussed on hockey or at least
2 part of your mind focussed on hockey.

3 But also just confirm for me as well, in terms
4 of your role at MPI, you'd agree with me that one (1) of your
5 -- your roles is to encourage actions that minimize or
6 mitigate the social and economic cost of accidents, correct?

7 MS. MARILYN MCLAREN: Yes.

8 MR. BYRON WILLIAMS: So as a spokesperson and
9 Chief Executive Officer of MPI, you have some expertise in
10 that area?

11 MS. MARILYN MCLAREN: Yes.

12 MR. BYRON WILLIAMS: Okay. Back to hockey.
13 I'm going to ask you to accept four (4) assumptions.

14 First of all I want you to start with the
15 assumption that I, Byron Williams being over the age of ten
16 (10) and a male am going to participate in a body contact
17 game of hockey against Mr. Galenzoski who has hung up his
18 wimpy racquetball shoes and has decided to play a real man's
19 game. Can you accept that, Ms. McLaren?

20 MS. MARILYN MCLAREN: I'll accept that.

21 MR. BYRON WILLIAMS: And the characterization
22 of racquetball as wimpy, you don't have to accept that.
23 We'll just move on.

24 I'd also ask you to assume that I'm aware of
25 the fact that hockey is a fast paced, violent game, with the

1 possibility of both legal and illegal contact, will you
2 accept that?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: And, third, I'm going to
5 ask you to accept the premise that I choose to enter this
6 gladiator's arena, armed or protected with a helmet, but
7 lacking a visor, a face mask, or a mouthguard, will you
8 accept that?

9 MS. MARILYN MCLAREN: Yeah.

10 MR. BYRON WILLIAMS: Now, what I want you to
11 do is assume that in the course of his enthusiastic, but less
12 than skilled, participation in this sport, Mr. Galenzoski
13 inadvertently raises his stick above his shoulders and
14 smashes me in the face, causing me to lose three (3) teeth,
15 will you accept that?

16 MS. MARILYN MCLAREN: Okay.

17 MR. BYRON WILLIAMS: I take it, given your
18 expertise and kind of -- an awareness of the importance of
19 sending messages about positive risk reducing behaviour, you
20 would agree with me that Mr. Galenzoski's conduct, while
21 inadvertent, was careless and might be deserving of some
22 sanction, to deter him from that in the future?

23 MS. MARILYN MCLAREN: Right.

24 MR. BYRON WILLIAMS: And would you also agree
25 with me that with -- with me that if I had chosen to wear a

1 mouth guard and a full facial visor, the consequences of Mr.
2 Galenzoski's careless but -- inadvertent act, probably would
3 have been mitigated, would you agree with that?

4 MS. MARILYN MCLAREN: Yes.

5 MR. BYRON WILLIAMS: So, I'd still have my
6 teeth and I'd still be beautiful, correct?

7 MS. MARILYN MCLAREN: You bet.

8 MR. BYRON WILLIAMS: And so if you were a
9 hockey policy maker, concerned with the social and economic
10 costs of injury in hockey, you might consider it a good --
11 policy to encourage participants like myself, to take
12 appropriate actions to protect ourselves, both from illegal
13 acts and also from inadvertent or legal acts, correct?

14 MS. MARILYN MCLAREN: Yes.

15 MR. BYRON WILLIAMS: Now, as you've
16 suggested, in hockey at least for those under the age of
17 eighteen (18), in Manitoba you're aware that it's mandatory,
18 both to wear a mouth guard and a full facial -- facial visor?

19 MS. MARILYN MCLAREN: I didn't know that, but
20 that's a good thing.

21 MR. BYRON WILLIAMS: But I guess as a public
22 auto insurer, you can't force people, for example, to choose
23 the type of vehicle that they drive?

24 MS. MARILYN MCLAREN: No, we certainly don't.

25 MR. BYRON WILLIAMS: But through the rate

1 making system, through CLEAR, which you've discussed at great
2 length with Mr. Saranchuk, you can use that system to
3 encourage them to take actions. And to take appropriate --
4 make appropriate choices that protect them, that leave them
5 safer in the event of illegal acts or inadvertent acts or
6 careless acts, correct?

7 MS. MARILYN MCLAREN: Yes, put them in a
8 position where they're able to make informed decisions. They
9 will choose to reduce their risk or simply accept the risk
10 knowingly, both are their options.

11 MR. BYRON WILLIAMS: And I'd suggest to you
12 and perhaps the word genius is -- is overstating it, but the
13 -- the strength -- one (1) of the great strengths of the MPI
14 program is that it can send a message of individual
15 deterrents in the form of the Bonus/Malus Program, where
16 people are accountable for their careless acts.

17 But it can also, through programs such as
18 CLEAR, send a message that people should protect themselves,
19 when they enter such a dangerous arena as a highway.

20 MS. MARILYN MCLAREN: Yes, I would agree with
21 that.

22 MR. BYRON WILLIAMS: I want to turn to the
23 issue of cross-subsidy. And I wonder if we can agree that if
24 the rates of one (1) class of consumers are recovering less
25 than their anticipated costs, and if that shortfall is being

1 picked up by another class of consumers, who as a
2 consequence, are paying above their anticipated costs, that
3 would constitute a cross-subsidy between those two (2)
4 classes of consumers?

5 MS. MARILYN MCLAREN: Yes.

6

7

(BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Now I'm going to ask you
10 to turn to Volume I, of the CAC/MSOS Book of References, and
11 I can assure you, Mr. Chairman, that Volume II, will be much
12 smaller.

13 And the first -- under the first Tab number 1
14 -- the very first interrogatory, which is PUB/MPI Round 1,
15 Number 12, and I'll -- I'll refer you directly to the
16 attachment of that interrogatory. Do you have that, Ms.
17 McLaren?

18 MS. MARILYN MCLAREN: Yes, I do.

19 MR. BYRON WILLIAMS: Now, as you can see,
20 what this attachment does, is set out a table with respect to
21 the experience rate requirement indicators and the requested
22 revenue adjustments by major use for the past five (5) years.
23 Is that correct?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: And if one were looking

1 for indicia of a potential for cross-subsidy, you'd agree
2 with me that you would -- you could look to the difference
3 between the financial forecast indicators and the actual
4 adjustment requested. Would that be right?

5 MS. MARILYN MCLAREN: Yes.

6 MR. BYRON WILLIAMS: I'd like you to turn to
7 -- under the Major Use column, Private Passengers, and move
8 along that column to your right to the -- the third year
9 there, 2002/03 and we see that the financial forecast
10 indicators for private passenger suggested a minus 2.1
11 percent rate reduction, whereas the actual adjustment was
12 zero. Correct?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: That would give some
15 suggestion that this class might be paid a bit less than
16 their -- a bit more, excuse me -- than their actuarially
17 indicated rate. Is that correct?

18 MS. MARILYN MCLAREN: Yes.

19 MR. BYRON WILLIAMS: And if we move over one
20 (1) more column to '03/04 we see the same situation where the
21 financial forecast indicators are lower than the adjustment
22 requested, again suggesting the potential for cross-subsidy
23 or -- is that correct?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: And finally, in '04/05,

1 again we see the financial forecast indicators being less
2 than the adjustment requested, again suggesting the potential
3 for cross-subsidy. Correct?

4 MS. MARILYN MCLAREN: Yes.

5 MR. BYRON WILLIAMS: So it appears for at
6 least these three (3) years, that private passengers have
7 been paying a bit more than their actuarially indicated rate.
8 Correct?

9 MS. MARILYN MCLAREN: Yes.

10

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(BRIEF PAUSE)

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MR. BYRON WILLIAMS: Now, Mr. Saranchuk took
the MPI Panel to this interrogatory earlier today so I won't
-- I'll try not to follow down his footsteps, but if you go
over to interrogatories in Tab 1, you'll see the
interrogatory PUB/MPI-2-23. It's probably one (1) more, Ms.
McLaren. Do you have that?

MS. MARILYN MCLAREN: Yes, I do.

MR. BYRON WILLIAMS: And if -- if I were to
suggest to you that perhaps the most longstanding issue of
cross-subsidization within Manitoba Public Insurance relates
to the motorcycle class, would you disagree with me?

MS. MARILYN MCLAREN: No.

MR. BYRON WILLIAMS: And I won't take you to

1 the second page because I believe Mr. Saranchuk dealt with
2 that with you, but can you confirm that the table at the
3 bottom of this page suggests that since 1990, other major
4 users have subsidized motorcycles to the tune of almost \$60
5 million. Correct?

6 MS. MARILYN MCLAREN: Yes, that's what this
7 table shows, but I -- I would like to put on the record that
8 that probably is somewhat overstated. In retrospect, the
9 commentary on top of the table where we talk about the
10 corporate goal to return 85 percent. The corporate goal is
11 really to return a minimum of eighty-five (85) cents on the
12 dollar and for the last many years the program overall has
13 returned closer to dollar for dollar.

14 So I think in actuality, the actual implied
15 premium would probably have been closer to the 84 million as
16 opposed to the \$99 million that's shown here. But either way
17 you cut it, there's significant multi-million dollar cross-
18 subsidization.

19 MR. BYRON WILLIAMS: Now the figure of 84
20 million, if we were to use that instead, that would make the
21 total shortfall from the motorcycle class, it would be about
22 forty (40) -- 45 million. Thank you, Mr. Galenzoski.

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

24 MR. BYRON WILLIAMS: Could I get him to sit
25 beside me for a little bit? I'd ask you to turn to the next

1 interrogatory response -- or it's actually a pre-ask response
2 within that -- that document, which is the response of the
3 Corporation to CAC/MSOS pre-ask number 3. Do you have that,
4 Ms. McLaren?

5 MS. MARILYN MCLAREN: Yes, I do.

6 MR. BYRON WILLIAMS: Now what this
7 interrogatory tried to do was put some math to the -- in
8 terms of the total dollar amount in -- associated with the
9 motorcycle shortfall. What was asked here was the amount of
10 the shortfall funded by the private passenger class. Is that
11 correct?

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

13 MR. BYRON WILLIAMS: And the Corporation
14 wasn't able to give an actual calculation but as a rough rule
15 of thumb they suggested it would be about 92 percent of the
16 shortfall which I'm sure Mr. Ga -- so if I were to multiply
17 45 million times 90.92, I would probably get a shortfall of
18 about \$41 million, is that right, ma'am?

19 MS. MARILYN MCLAREN: Yes. From the private
20 passenger class, right.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: And just flipping back
25 to PUB/MPI-2-23 for a minute, Ms. McLaren, I apologize for

1 flipping back and forth.

2 But if I'm to look at the shortfall in the
3 right hand column, again, taking into account that it's
4 probably overstated somewhat, but you'd agree with me that
5 while the issue has been longstanding there are -- since
6 1998, there have been a number of years with quite
7 significant shortfalls from the motorcycle class.

8 So this is a problem that's not going away,
9 correct?

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

11 MR. BYRON WILLIAMS: And again, just to
12 highlight that for the 2001 year, it looks like the shortfall
13 calculated in this interrogatory is 8.6 million and for the
14 2003 year it's about 13.1 million, correct?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: Now that only takes us
17 to '03/04. My understanding is that there's likely to be a
18 shortfall associated with motorcycles in '04/05 as well. Is
19 that right, Ms. McLaren?

20 MS. MARILYN MCLAREN: Actually I'm not sure
21 that is right. No. I think that this -- on the serious loss
22 side, motorcycles have done pretty well so far this year.

23 MR. BYRON WILLIAMS: So we're looking at the
24 -- but for the '05/06 year there is a projected shortfall for
25 motorcycles as well, is that right?

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

2 MR. BYRON WILLIAMS: And if you move over a
3 couple more interrogatories, in terms of the document, you'll
4 come to CAC/MSOS First Round Interrogatory Number 5, do you
5 have that?

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: And this was -- judging
8 from the response to question number 'B' in terms of what is
9 the cost being transferred to other major classes from
10 motorcycles, you'd agree with me that the shortfall for this
11 year is probably about \$1.35 million, correct?

12 MS. MARILYN MCLAREN: Yes.

13 MR. BYRON WILLIAMS: And if I wanted to
14 calculate the share of that shortfall that's being accounted
15 for by the private passenger class, at least as a rough rule
16 of thumb, I could probably turn to the second page of that
17 interrogatory and compare the applied for premium adjustments
18 versus the -- the -- of 498.532 million to the adjusted to
19 match applied for premiums of 497.288, would that be fair?

20 MS. MARILYN MCLAREN: Yeah, approximately
21 that would be fair, sure.

22 MR. BYRON WILLIAMS: And that would leave a
23 shortfall in the range of 1.2 million being borne by the
24 private passenger class, is that right?

25 MS. MARILYN MCLAREN: Yes.

1 MR. BYRON WILLIAMS: Now I want to turn to
2 the issue of dealer plates very quickly and again, in terms
3 of that issue if you move one interrogatory over, you'll see
4 the response of the Corporation the CAC/MSOS First Round
5 Interrogatory 1-4, do you have that?

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: Now in this
8 interrogatory CAC/MSOS very cleverly asked MPI to indicate
9 the premium shortfall, and I guess you can confirm that that
10 is -- is about 2.2 million; is that correct?

11 MS. MARILYN MCLAREN: Yes.

12 MR. BYRON WILLIAMS: And that's the amount
13 that will be assumed by other ratepayers to cover the dealer
14 plate shortfall?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: Not so cleverly,
17 CAC/MSOS neglected to ask what share of that shortfall was --
18 was borne by private passenger classes.

19 But I'm wondering if the Corporation could
20 provide us at least with a rough indication of how much that
21 would be?

22 MS. MARILYN MCLAREN: Yeah, we can do that.

23 MR. BYRON WILLIAMS: Given my experience in
24 the Hydro Hearings, I think we have to say undertaking. So,
25 if you would undertake to do that, that would be great?

1 MS. MARILYN MCLAREN: We will undertake to do
2 that.

3
4 --- UNDERTAKING NO. 7: The Corporation to provide a
5 rough indication of what the
6 shortfall borne by the private
7 passenger class would be.

8
9 MS. MARILYN MCLAREN: The 92 percent of the
10 2.2 million wouldn't be far off.

11
12 CONTINUED BY MR. BYRON WILLIAMS:

13 MR. BYRON WILLIAMS: And that would put it in
14 the range of \$2 million?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: Just moving along a
17 couple more Interrogatories, I think you'll come to CAC-2-IR-
18 MPI-2-4. Do you have that, Ms. McLaren?

19 MS. MARILYN MCLAREN: Yes.

20 MR. BYRON WILLIAMS: And Part B of that
21 Interrogatory posed a question, what would be the private
22 passenger class overall rate change if it did not provide a
23 subsidy in '05/06 to either the motorcycle class or the
24 commercial class, and that amounts -- excuse me, asked what
25 would be the overall rate change would be, if it didn't

1 provide a subsidy, and the answer provided by the Corporation
2 is minus 0.59 percent; is that correct?

3 MS. MARILYN MCLAREN: Yeah.

4 MR. BYRON WILLIAMS: Without asking you to
5 debate the appropriateness of the policy of -- of who bears
6 the costs of cross-subsidies, if they exist, I wonder if you
7 would agree with me that the private passenger class, just by
8 its sheer volume and numbers of vehicles is likely to bear
9 the -- the large percentage of any such cross-subsidy?

10 MS. MARILYN MCLAREN: Yes, solely on the
11 basis of its size, that would always be true.

12 MR. BYRON WILLIAMS: I'm not looking to
13 revisit the -- today, the DDVL issue that was raised by Mr.
14 Saranchuk, although we may get into it a bit on Monday. But
15 I did want to get some sense from you, in terms of the DDVL
16 transfer, or let me rephrase this.

17 As a consequence of the lapsing of the share
18 agreement with the Province, the basic program will be
19 assuming an additional \$5.7 million in commissions for
20 '05/06; is that right?

21 MS. MARILYN MCLAREN: Yes.

22 MR. BYRON WILLIAMS: If one were to try and
23 calculate how much of that increased responsibility has been
24 borne by the private passenger class, would one again use the
25 formula of point nine two (.92) times 5.7 million?

1 Would that be right?

2 MS. MARILYN MCLAREN: Yes.

3 MR. BYRON WILLIAMS: And that would get that
4 share of that increased cost would be in excess of \$5 million
5 being borne by private passenger class, correct?

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: Now, I'm not sure if it
8 was posed, but if it was I apologize for this. But for the
9 '04/05 year, my understanding is that the -- well, let me put
10 it another way.

11 At what point in time did this cost sharing
12 agreement with the Province of Manitoba lapse; is that
13 effective March 1st, 2005, or are you aware when it lapsed?

14 MR. BARRY GALENZOSKI: March 1, 2004.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: So does that mean that
19 for the 2004/05 year, the basic program is also picking up
20 the former share of the money cost shared by the Province of
21 Manitoba with regard to broker's commissions?

22 MR. BARRY GALENZOSKI: I'll just correct my
23 first answer, it wasn't March 1 it was February 1 of -- so it
24 had some small impact on the previous fiscal year and if you
25 could repeat the question, please?

1 MR. BYRON WILLIAMS: Now I have two (2)
2 questions. Given the -- the indication that the agreement
3 lapsed on February 1, 2004, can you indicate, first of all,
4 the impact of that upon basic program costs for the '03/'04
5 year?

6 MR. BARRY GALENZOSKI: Approximately a half a
7 million dollars.

8 MR. BYRON WILLIAMS: And the impact of the
9 elapsing of the agreement on the '04/'05 year would be,
10 presumably, in the range of \$5.7 million?

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

12 MR. BYRON WILLIAMS: So, of the increased
13 loss or in terms of the forecast loss in the range of \$9
14 million being forecast for Manitoba Public Insurance for
15 '04/'05, one (1) of the significant variances from projection
16 would be the transfer of the responsibility for broker
17 commissions relating to DDVL.

18 Would that be right?

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

20 MR. BYRON WILLIAMS: And I think I know the
21 answer to this one. If private passengers share that loss in
22 '04/'05, I guess it would be kind of the same point nine two
23 (.92) formula? Would that be right?

24 MR. BARRY GALENZOSKI: Yes, and I think you
25 just did the calculation a minute ago at about \$5 million.

1 MR. BYRON WILLIAMS: Just moving back to the
2 subject of motorcycles for a second, and I think Mr.
3 Saranchuk answered a -- or posed a couple of my questions
4 previously, but -- and just to direct you to Tab 3 of the CAC
5 Volume 1 Book of References.

6 Do you have that, Ms. McLaren?

7 MS. MARILYN MCLAREN: Yes, I do.

8 MR. BYRON WILLIAMS: If I understand this
9 answer correctly, if we're trying to understand how many --
10 what percentage of motorcycle owners actually also own a
11 passenger vehicle or light truck, we're talking about
12 something over 80 percent. Is that right?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: Now, I was very tempted,
15 given the fact that your evidence was accepted as read, in
16 terms of credibility to -- to get you to explain to us what
17 exactly what Bowman (phonetic) credibility was, Ms. McLaren,
18 but I think I'll forego that and ask you to turn over one (1)
19 interrogatory to PUB/MPI-2-25.

20 Do you have that?

21 MS. MARILYN MCLAREN: Yes.

22 MR. BYRON WILLIAMS: And given the debate in
23 your rebuttal evidence, I just want to direct your attention
24 to your response to 2-25(B) and about six (6) lines down,
25 where the Corporation indicates

1 "At present the credibility process has no
2 impact on the achievement of rate adequacy
3 for the motorcycle major class, since its
4 credibility required rate increase is
5 higher than the capped increase of 15
6 percent."

7 And is that still the Corporation's position?

8 MS. MARILYN MCLAREN: Yes.

9 MR. BYRON WILLIAMS: So, in -- in the context
10 of this rate application, the debate over credibility would
11 not affect the Corporation's recommendation of the overall
12 rate increase for motorcycles?

13 MS. MARILYN MCLAREN: Right.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Ms. McLaren, you were
18 looking so lonely the first couple of days of the hearing, I
19 thought I would ask you a lot of questions today, so I'm
20 going to continue in that vein.

21 And I just want to very briefly discuss with
22 you the issues of public acceptability and -- and in -- in
23 what areas the Corporation considers it's important to be
24 taken into account and also how the Corporation measures
25 that, and just as a starting point for the reference I direct

1 you to Tab 4 of the CAC/MSOS Book of References.

2 And you'll see a discussion of the
3 Corporation's Bonus/Malus program and the point that the
4 Corporation seems to be making in its response to PUB/MPI-2-
5 29, especially in the second paragraph, is in terms of the --
6 its policy making around Bonus/Malus, public acceptability
7 considerations are of particular importance.

8 Is that fair?

9 MS. MARILYN MCLAREN: Yes, that's fair and I
10 think the heart of the issue in this particular circumstance
11 is, again as we've talked a number of times through these
12 Proceedings, the issue of rate stability. We know that the
13 vast majority of accidents are caused by people who go for
14 many years without causing one. They cause one (1) and then
15 they go for many years without doing it again for the most
16 part.

17 Every other aspect of the Corporation's rate
18 making methodology uses multiple years of data to -- to
19 smooth and provide greater stability. In terms of the
20 territory and insurance use experience based adjustments, the
21 costs are averaged over five (5) years. So there's --
22 there's built-in stability through that model.

23 By the Corporation's application of clear rate
24 groups there's inherent stability within that process. To
25 simply treat the Bonus/Malus component in a different way

1 would, you know, the label the public would put on it would
2 be publicly un -- would be unacceptable, you know, too
3 aggressive swinging up and down for their -- their mind set.

4 So I think in terms of the acceptability it's
5 clearly an important factor but I think we can also explain
6 it in language that's more consistent with the rest of the
7 methodology as well.

8 MR. BYRON WILLIAMS: I thank you for that
9 although you're making me look bad because I promised the
10 Chair that I wouldn't go into the subject of Bonus/Malus and
11 I was really trying to focus on the issue of public
12 acceptability.

13 So my question, just in terms of Bonus/Malus
14 program is how does one determine what's publicly acceptable?
15 Is it through anecdotal evidence, is it through the claims
16 adjustment process, is it through polling? What goes into
17 the corporation's determination of public acceptability for
18 Bonus/Malus?

19 MS. MARILYN MCLAREN: All of the above.

20 MR. BYRON WILLIAMS: Does it poll extensively
21 on bonus -- the Bonus/Malus Program?

22 MS. MARILYN MCLAREN: Not extensively and not
23 repeatedly but fairly comprehensively periodically.

24 MR. BYRON WILLIAMS: And how often is
25 periodically?

1 MS. MARILYN MCLAREN: I think the last survey
2 that -- that dealt with the issue in a very in-depth way was
3 probably 2001 the last time we made changes to the
4 Bonus/Malus system.

5 MR. BYRON WILLIAMS: So the -- from the
6 Corporation's perspective in terms of policy making, measures
7 of public opinion such as polling can be an important element
8 of its policy making function, correct?

9 MS. MARILYN MCLAREN: Yes.

10 MR. BYRON WILLIAMS: And again, it's not
11 perhaps a public opinion polling but in terms of measuring
12 client satisfaction or in terms of the claims process, the
13 corporation also conducts extensive surveys to measure that?

14 MS. MARILYN MCLAREN: Yes.

15 MR. BYRON WILLIAMS: And another area I guess
16 where public -- another area where public acceptability, the
17 Corporation tries to measure it to inform its policy, relates
18 to the road safety program, would that be fair?

19 MS. MARILYN MCLAREN: Yes.

20 MR. BYRON WILLIAMS: So again, when it
21 relates to road safety as one (1) element of the public -- of
22 the policy framework, the Corporation does pay reference to
23 public opinion polling, correct?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: Apart from those three

1 (3) areas being Bonus/Malus, claimant satisfaction and road
2 safety, are there other -- any other major areas where the
3 corporation conducts polling?

4 MS. MARILYN MCLAREN: All other aspects of
5 the Corporation's services, the front end parts of the
6 business as well, with respect to customer satisfaction level
7 with the services provided by brokers, provided directly by
8 the Corporation, that immediately springs to mind.

9 MR. BYRON WILLIAMS: So those would be the
10 big four (4)?

11 MS. MARILYN MCLAREN: Yes, I think that's
12 fair.

13 MR. BYRON WILLIAMS: Ms. McLaren, you -- you
14 and Mr. Galenzoski may not need to have it by -- by your
15 hand. But I am going to be making reference to a discussion
16 that took place on -- in the transcr -- took place on
17 Wednesday morning between both yourself, Mr. Galenzoski and
18 Mr. Saranchuk. So if you want to have Day 3 of the
19 transcript at hand and in the range of page 309, it might be
20 helpful.

21 MR. KEVIN McCULLOCH: I presume you mean day
22 two (2), since today is day three (3)?

23 MR. BYRON WILLIAMS: Yes, I'm getting a
24 little ahead of myself. Day two (2). Mr. Chair, day two (2)
25 of the transcript, page 309.

1 (BRIEF PAUSE)

2
3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: Ms. McLaren, I'm going
5 to try and summarize this discussion. And you can certainly
6 correct me if I've got it wrong, but I'm not going to read it
7 all in, but you were having a conversation with Mr.
8 Saranchuk, both you and Mr. Galenzoski. And he was pressing
9 Mr. Galenzoski regarding what he characterized as the growing
10 cost pressures on the Corporation.

11 And if I understand Mr. Galenzoski's response
12 correctly, his main point was that the program continues to
13 be affordable, as reflected by the fact that neither the
14 projected or outlook years is there any demonstrated need for
15 a rate increase, based upon the Corporation's best estimates.

16 Is that a fair summary of that discussion?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: And as I recall, and
19 going -- again referring to the transcript as well. Mr.
20 Saranchuk continued on that issue, and your eventual response
21 to him, I think this appears at page 312, was that MPI knows
22 how to reduce claims costs and claims frequency.

23 And you went on to say that if reducing claims
24 costs and claims frequencies meant increasing the deductible
25 or a more punitive Bonus/Malus System, or limiting access to

1 claims services, then MPI didn't see any desire on the behalf
2 of Manitobans to limit coverage.

3 Is that a fair summary of that discussion?

4 MS. MARILYN MCLAREN: Yes. Any time we ask
5 Manitobans to balance cost against comprehensive coverage,
6 they choose coverage.

7 MR. BYRON WILLIAMS: Well, I'm not anxious to
8 revisit that debate, although I'm hoping to refine it. And
9 in terms of what Manitobans desire, hopefully you can agree
10 with myself and my clients, that while they may not desire
11 any material changes in coverage, there's also not an
12 overwhelming desire on the part of Manitobans for any future
13 rate increases; would that be fair?

14 MS. MARILYN MCLAREN: Yeah, that's fair,
15 sure.

16 MR. BYRON WILLIAMS: There's no petition
17 campaign seeking rate increases or anything like that from
18 Manitobans?

19 MS. MARILYN MCLAREN: Not that we've found,
20 no.

21 MR. BYRON WILLIAMS: Would you also agree
22 with me that while the projection year and outlook year are
23 relatively possibility -- look relatively positive, there is
24 a possibility that those forecasts could be either materially
25 better -- or the actual results could deviate in a way that's

1 either materially better or materially worse than the
2 projection and outlook years?

3 MS. MARILYN MCLAREN: Yes, that's a definite
4 possibility.

5 MR. BYRON WILLIAMS: So, while there are no
6 rate increases currently forecast or projected, the results
7 from the projection years could be either a big deficit or a
8 big surplus, correct?

9 MS. MARILYN MCLAREN: The results can vary,
10 absolutely.

11 MR. BYRON WILLIAMS: Keeping on the -- at a
12 theoretical level, you mention that one (1) way to control
13 claims escalation was to -- to limit coverage. But I wonder
14 if you'd agree with me that theoretically, apart from
15 restrictions to coverage, there are other ways to -- there
16 might be other ways to restrict cost -- cost pressures.

17 Such as doing things better, such as the
18 Corporation has done with its auto -- with its stereo program
19 or its glass program, or its tire program; would that be
20 fair?

21 MS. MARILYN MCLAREN: Yes.

22 MR. BYRON WILLIAMS: And again, staying at
23 the theoretical level, another way that one might reduce cost
24 pressures in theory, would be to spend money better, or spend
25 more money in the road safety program, thereby reducing the

1 number of accidents or the calamitous result of accidents?
2 That's another theoretical possibility?

3 MS. MARILYN MCLAREN: That's a theoretical
4 possibility.

5 MR. BYRON WILLIAMS: As well, in theory,
6 another way to mitigate cost pressures, would be to ask the
7 employees of Manitoba Public Insurance to either be more
8 productive or to theoretically restrict the pace of growth in
9 terms of their compensation payments. That's theoretically
10 possible?

11 MS. MARILYN MCLAREN: Yes, but that's a very
12 tiny percentage of overall corporate cost.

13 MR. BYRON WILLIAMS: Just going back to what
14 the Manitoba public desires. I wonder if you would agree
15 with me that while there's no great desire for cuts to
16 program coverage, there would be less resistance from the
17 province to -- or from -- from the public, to efforts by the
18 Corporation to improve productivity or to have a more
19 effective road safety program or to improve employee
20 productivity.

21 You'd agree with that?

22 MS. MARILYN MCLAREN: You're asking me to
23 agree that they would prefer an increase in employee
24 productivity over an increase in rate?

25 MR. BYRON WILLIAMS: What I'm saying is, you

1 -- in terms of cutting cost -- you said that there's no great
2 desire to -- to reduce program coverage, but surely you'd
3 agree with me that Manitobans would not be resistant to
4 improving productivity or improving the efficiency of the
5 road safety program.

6 MS. MARILYN MCLAREN: No, I don't think that
7 there would be any resistance to that.

8 MR. BYRON WILLIAMS: And I wonder if you'd
9 agree with me that while it's important from the public's
10 perspective to have good program coverage and to have
11 affordable rates, it's also important from the perspective of
12 Manitobans to have a program that they're confident in that's
13 running at optimum efficiency.

14 MS. MARILYN MCLAREN: Absolutely. I would
15 agree with that.

16 MR. BYRON WILLIAMS: So you'd agree with me
17 that before going to the -- to the Public Utilities Board or
18 to the public either seeking to cut programs or for a rate
19 increase, the onus is on this Corporation to demonstrate that
20 it's doing everything possible to operate efficiently.

21 Would that be fair?

22 MS. MARILYN MCLAREN: I think that's fair.

23 MR. BYRON WILLIAMS: I'm just changing to --
24 I think I -- Mr. Chairman, I can probably cover one (1) more
25 subject before four o'clock. And it's again referring to a

1 discussion that took place on Day 2 of the Hearing between
2 Mr. Galenzoski and Mr. Saranchuk. And it took place in the
3 afternoon at Page -- around Page 353 relating to dynamic
4 capital testing.

5 So do you have that, Mr. -- Mr. Galenzoski?

6 MR. BARRY GALENZOSKI: I have that.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Now, I don't have the
11 actual quote right in front of me, but I believe in your
12 discussion -- and I also want to talk about the transfer from
13 Extension to -- to SRE, but -- I believe in your discussion
14 of the transfer of excess reserves from Extension and SRE to
15 Basic, Mr. Galenzoski, you described that as a transfer of
16 strength to Basic.

17 Do you recall that -- that statement?

18 MR. BARRY GALENZOSKI: We were talking about
19 the Corporation's overall financial strength and I indicated,
20 I guess, in an analogy of -- of transferring the strength
21 from the two (2) Extension lines of businesses to assist in
22 building the strength in the Basic side and the RSR.

23 MR. BYRON WILLIAMS: And I wasn't able to
24 find a reference to this on the record. So just to follow up
25 on that, if you could remind, before one makes an -- a

1 transfer from SRE to the Basic program, Manitoba Public
2 Insurance has to be satisfied that the reserves in SRE are
3 adequate. Correct?

4 MR. BARRY GALENZOSKI: Yes, we do it based on
5 -- an -- after the fact of an audited financial statement.
6 Part and parcel of getting and audited financial statement is
7 to have the actuary certify the results as well as having the
8 auditors -- external auditors -- review and satisfied that
9 the financial results are as stated.

10 MR. BYRON WILLIAMS: And -- and in terms of
11 the appropriate level of reserves to be confident that
12 they're adequate for SRE, is that calculated using the -- the
13 DCAT process?

14 MR. BARRY GALENZOSKI: Yes, for both lines of
15 business we conduct individual DCAT analysis.

16 MR. BYRON WILLIAMS: Now, I'm -- I'm going to
17 come back to that point in a second, but -- and again, I'm
18 not trying to get into a debate or repeat what you discussed
19 with Mr. Saranchuk, but I do want to confirm my understanding
20 of your discussion with him in terms of reserves. And
21 there's four (4) kind of points I want to put to you and see
22 if I've understood them correctly.

23 The -- one (1) of the points you made to him,
24 and I believe it appears at Page 359, and again I'm not
25 asking for a speech, just a confirmation -- is that from the

1 perspective of MPI, you're not completely satisfied with the
2 existing RSR target as set by the Public Utilities Board.
3 Would that be accurate?

4 MR. BARRY GALENZOSKI: Yes, that's accurate.

5 MR. BYRON WILLIAMS: And moving on to Page
6 361, again not inviting a -- a speech, the -- the message
7 that you sent to this Board was that the -- the issue of --
8 of what the appropriate RSR should be is a -- a message or a
9 -- a debate for a future date. Would that be fair?

10 MR. BARRY GALENZOSKI: Yes, that's fair.

11 MR. BYRON WILLIAMS: And thirdly, in terms of
12 the DCAT -- or DCAT -- my understanding is that you were
13 providing that to the Panel -- to the Public Utilities Board
14 Panel -- I think -- are both of our mikes on or am I just too
15 close?

16 MR. BARRY GALENZOSKI: Must be your
17 pacemaker.

18 MR. BYRON WILLIAMS: We'll try that instead.
19 You were providing that information to the Public Utilities
20 Board for the purposes of informing it in terms of industry
21 norms and you weren't, at this point in time, endorsing it as
22 an appropriate approach to setting the Rate Stabilization
23 Reserve. Is that fair?

24 MR. BARRY GALENZOSKI: Yes, that's right.

25 MR. BYRON WILLIAMS: And finally, with

1 reference to the minimum capital test, the 150 percent, my
2 understanding of your testimony based upon Pages 353 and 354,
3 was that you believe that that was not necessarily relevant
4 to MPI and it was not necessary to be at the -- at that type
5 of level. Would that be fair?

6 MR. BARRY GALENZOSKI: Well, if you're
7 referring to the RSR being at that level, yes, you're
8 correct.

9 MR. BYRON WILLIAMS: Just in terms of the
10 overall strength of the Corporation, would be -- I be correct
11 in suggesting to you that the -- the standards of the
12 Corporation, setting reserves for Extension and SRE are --
13 are more stringent than they are for Basic notwithstanding
14 the fact that the Basic program is a more volatile program
15 than SRE and Extension?

16 MR. BARRY GALENZOSKI: Well, it comes down to
17 their -- the ability to charge the premiums and we're running
18 those two (2) as though they were standalone organizations as
19 they would be if they were in the private sector.

20 MR. BYRON WILLIAMS: Just referring you to
21 Page 370 of the transcript lines 17 through -- through 19, it
22 seems to me you were suggesting that these programs are also
23 less volatile by their very nature. Is that correct?

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

25 MR. BYRON WILLIAMS: And I guess the -- the

1 point I'm trying to suggest to you, Mr. Galenzoski, is that
2 while you characterize the transfer to Basic of the excess
3 reserves from SRE and Extension as a transfer of strength,
4 Manitoba Public Insurance has every reason to be confident
5 that the existing reserves for SRE and Extension are also
6 very strong. Would that be fair?

7 MR. BARRY GALENZOSKI: Yes, that's fair.

8 MR. BYRON WILLIAMS: So when we look at the
9 overall health of the Corporation, we can be confident that
10 the reserves for SRE and Extension are very strong and we can
11 also be aware of the fact that the situation in Basic is
12 improving as compared to where it was a year ago. Would that
13 be fair?

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

15 MR. BYRON WILLIAMS: Mr. Chairman, with your
16 permission, I've got a -- I think this would be a nice spot
17 to stop, if that's all right with you.

18 THE CHAIRPERSON: Oh, that's very good, Mr.
19 Williams, and we'll carry on on Monday. Just before we shut,
20 if you don't mind -- before adjourning, I'd like --
21 appreciate clarification -- I think it would be from you, Mr.
22 Galenzoski, on one (1) matter that we have discussed this
23 afternoon.

24 From your responses to Mr. Williams, and I
25 think it was you, I now understand that the cancellation of

1 the DDVL cost share transfer began in February of 2004. Do I
2 have this right?

3 MR. BARRY GALENZOSKI: Yes, you do.

4 THE CHAIRPERSON: Thank you. Then, would it
5 be fair to say that the net reduction to the projected RSR
6 for the end of '05/06 could be projected at approximately \$12
7 million -- like five hundred thousand (500,000) for '03/04
8 and then about 6 million for the next two (2) years?

9 MR. BARRY GALENZOSKI: Well, there -- there
10 is some complications as it hits the financial statement. I
11 was talking about the cash flow stopped at February 1. But
12 we earn those -- those recoveries on the same basis as we
13 earn the premium -- or the commissions.

14 So there is going to be some flowthrough and
15 it wouldn't be exactly as you stated. But there will
16 eventually be that full year impact.

17 THE CHAIRPERSON: Say then it would have an
18 effect of reducing the projected RSR balance as of the end of
19 05/06 by even, say, 10 million; would that be approximate?

20 MR. BARRY GALENZOSKI: No, that -- that would
21 be too high. By the end of 05/06 we're talking the five
22 point seven (5.7) for the full year for 05/06 and probably
23 half of that for the -- the previous year. So a little less
24 -- a little less than half.

25 So a little bit -- little bit more than that.

1 So probably around eight (8) or \$9 million.

2 THE CHAIRPERSON: Okay. And I'll leave it
3 for today but just in reflecting on it I was looking at our
4 Book of Documents, Mr. Saranchuk on Tab 5 where there's a
5 forecast for RSR for Basic. And the current projection for
6 05/06 of 78,961,000 I presume would take into account the
7 cancellation of the arrangement?

8 MR. BARRY GALENZOSKI: Yes, it would.

9 THE CHAIRPERSON: So then if the arrangement
10 hadn't been cancelled, just hypothetically then, the
11 correction to the balance would have taken it a significant
12 amount over the -- the PUB indicated maximum of the range?

13 MR. BARRY GALENZOSKI: It would have taken
14 over that range by some amount, yes.

15 THE CHAIRPERSON: Thank you, Mr. Galenzoski.
16 I just wanted that clarification. I think -- oh, I'm sorry,
17 before we shut down, Mr. McCulloch...?

18 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman, it's
19 the end of the week so I may as well clear the decks of one
20 (1) more undertaking and that relates to Undertaking Number 7
21 which was to provide a copy of the Manitoba Health Cost
22 Payment Agreement.

23 And what we've done is determined that a copy
24 of this agreement was actually filed in August of 1996 as a
25 response to a second round PUB/MPI Information Request and

1 the agreement has not been altered, although payments under
2 the agreement have been altered.

3 The agreement stands as it is so I'll file
4 that as Exhibit 12, I believe. MPI Exhibit 12.

5

6 --- EXHIBIT NO. MPI-12: Copy of Manitoba Health Cost
7 Payment Agreement.

8

9 THE CHAIRPERSON: Thank you, Mr. McCullough.
10 I'm sure we'll study it studiously over the weekend. Thank
11 you. Okay, we'll stand adjourned. Have a good weekend.
12 We'll see you on Monday.

13 MR. BYRON WILLIAMS: Mr. Chairman, if --

14 THE CHAIRPERSON: Sorry, Mr. Williams...?

15 MR. BYRON WILLIAMS: My apologies. I'll have
16 to apologize to my client though more so than you. I did
17 neglect to note that Ms. Lori Hunter was here for -- from
18 about three o'clock on to about 3:40 or so.

19 So I neglected to introduce her. She's the
20 Executive Director of the Society of Seniors.

21 THE CHAIRPERSON: Yes, we remember her from
22 another hearing. Thank you.

23 MR. WALTER SARANCHUK: And just in terms of
24 the future scheduling, Mr. Chairman, if I -- if I may, it
25 appears that we're on track to -- on the timetable, at least

1 Monday.

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3 --- Upon adjourning at 3:59 p.m.

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5 Certified Correct

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Carol Wilkinson

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