MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2018/2019 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Michael Watson - Board Member

Carol Hainsworth - Board Member

Allan Morin - Board Member

Robert Vandewater - Board Member

HELD AT:

Public Utilities Board

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Pages 381 to 627

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TABLE OF CONTENTS

	Page No.
List of Exhibits	384
List of Undertakings	385

CONTINUED MPI Panel 1:

LUKE JOHNSTON, Previously Sworn

PETER YIEN, Previously Affirmed

Re-Direct Examination by Mr. Matthew Ghikas	387
Cross-Examination by Ms. Kathleen McCandless	394
Cross-Examination by Mr. Robert Watchman	497
Certificate of Transcript	627

LIST OF EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE NO.
MPI-12	Presentation of Ward Keith	517
MPI-13	Response to PUB-MPI PreAsk 4	517
PUB-14	The physical damage re-engineering program charter dated May 20, 2014 from the 2015 General Rate Application	518
PUB-15	Information Request PUB-MPI-1-75 dated September 5, 2014 from the 2015 General Rate Application	518
MPI-14	RFP for ALM study submitted by Mercer Canada	627

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
8	The Corporation will provide the total budget allocated to the seven (7) cancelled PDR projects and a comparison of where the budget allocation went estimated to actual	452
9	To advise where each of these seven (7) cancelled projects fall within any of the initiatives on the left-hand side of the table. And then what the original budgeted amount was for each of those projects within those buckets.	458
10	MPI to provide information as to the estimated operating costs for the PDR program, including maintenance cost, licensing fees and redevelopment.	466
11	MPI to provide a schedule of when you expect The targeted staff reductions associated with the PDR program.	468
12	MPI to advise as to the amount of the optimized adjusting budget and PUB-MPI-1-75 from the 2015 GRA was allocated to the CARS replacement.	473

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
13	MPI to provide an explanation as to why the response to PUB-MPI-2-36 is a 4.3 percent increase	500
14	The Corporation to reconcile the calculation of the investment return on assets supporting Basic total equity using the information from volume 2 investments	565
15	The Corporation to confirm whether line items 22 and 23, investment fees paid and pension expense, are appropriately charged to the investment income on assets supporting total equity	566
16	MPI to provide the basis and derivation of the implied 178 basis point spread adjustment as forecasted.	576

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

THE CHAIRPERSON: Good morning, everyone. I spoke to Ms. McCandless. Mr. Ghikas, I understand, you have a few matters.

MR. MATTHEW GHIKAS: Yes, actually, they're transcript corrections -- not -- not transcript corrections but where the witnesses need to correct some responses that they gave yesterday.

So there's one --

THE CHAIRPERSON: Okay.

MR. MATTHEW GHIKAS: -- I've got one for Mr. Yien and one for Mr. Johnston.

CONTINUED RE-DIRECT EXAMINATION BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: So we'll start with Mr. Yien at page 344 of the transcript, in that series of questions that -- Mr. Yien, you recall that My Friend Ms. McCandless was asking you questions about vacancy allowance?

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: Okay. And so if we look specifically at Line 18 of page 344, you'll see My Friend asked you, "so the effect of that -- so MPI is still using the vacancy allowance" and your answer begins with no. And then there's some discussion and then if you look down at line 16, of 345, line 16, you say,

"The difference this year is we're pushing it down so effectively what we're saying is, instead of using a vacancy allowance, what we're going to do is when we're going to do the net numbers which means plan that yourself so that you know by area roughly how many people are not going to be around while you are actually searching for replacement, so, therefore, there won't be a vacancy allowance for this year."

Now, just -- I think there was some confusion here, Mr. Yien. When you were talking about this year there being no vacancy allowance, what year are you talking about?

MR. PETER YIEN: I -- I was referring to the 2019, next year's GRA.

MR. MATTHEW GHIKAS: Okay. So in the GRA application this year, is there a vacancy allowance?

MR. PETER YIEN: It should be

corrected to say, yes.

MR. MATTHEW GHIKAS: Okay, thank you.

Now, Mr. Johnston, yesterday, if we can turn, Diana, to page 216 -- sorry, to 221. My apologies. This -- in this sequence of questions, this related to what was referred to as the compliance filing proposal of MPI. And you'll see, Mr. Johnston, at page 221 starting at line -- oh, I'm sorry, I'm getting ahead of myself here.

Page 216. This sequence of questions begins relating to this compliance filing process, and it starts at line 13. Now, the compliance filing process that we are -- that -- that My Friend is referring to here is the one (1) in which MPI is proposing to update the rate indication with the actual 10 year Government of Canada bond yield or the interest rate as of November 30th, 2017.

Do you recall that?

MR. LUKE JOHNSTON: Yes, I do.

MR. MATTHEW GHIKAS: And have you reviewed the transcript?

MR. LUKE JOHNSTON: I have.

MR. MATTHEW GHIKAS: Okay. So under MPI's proposal, are there any other inputs into the rate indication that would be updated, other than the

Government of Canada 10 yield -- 10 year bond yield?

MR. LUKE JOHNSTON: No, there wouldn't be, and that was part of the confusion I think in some -- the way I described the compliance filing.

Really, when we say "compliance filing," we're not talking about anything different than we've just done in this rate hearing each year. So, in round 2, an Information Request was asked to please update the rate indication for the latest Government of Canada ten-year bond yield, and we did that and the number I believe was -- was 2 percent.

There's also a pre-ask that we'll be filing shortly to update that interest rate again, as of I believe September 30th. That is, essentially, identical to what we're asking in the complying -- compliance process. To do the same update that we've done for many years here at the PUB hearings, just to push that date as close as possible to the actual filing date to minimize the interest rate risk.

MR. MATTHEW GHIKAS: Okay. And so are you anticipating that the Board would have the update before or after it renders its decision?

MR. LUKE JOHNSTON: And again, I wasn't as clear as I needed to be on this topic. Understandably, the Board would like to issue an Order knowing what the actual interest rate is and the rate indication.

So, what -- whether it's -- we've proposed November 30th, but it could be a different day. But -- but the idea is that we could provide the Board with all the information as listed in the compliance filing based on the Government of Canada ten-year bond on November 30th which then the Board would have the actual information that -- similar to an updated Information Request for that updated bond yield.

And then, again, it wouldn't look like the Board is issuing an Order where they don't know what the actual rate indication is yet.

MR. MATTHEW GHIKAS: And, Mr. Johnston, are the naive interest rate forecasts available every day?

MR. LUKE JOHNSTON: Yes, they are.

MR. MATTHEW GHIKAS: And so if we can go now to page 221, which is I think where the confusion -- the confusion started. Starting at line 18, you'll see My Friend Ms. McCandless is asking you -- referring to the -- what is the proposal of updating the rate indication with the actual 10 year Government of Canada bond interest rate.

And then over on the following page, My Friend asked you about an alternative proposal to update the rate indication with the actual claims discount rate as of November 30th, 2017.

Do you see that?

MR. LUKE JOHNSTON: Yes, I do.

MR. MATTHEW GHIKAS: Okay. Now, as I understand it, MPI discussed an approach that would involve updating the claims, the actual claims' discount rate as of November 30th in the application, correct?

MR. LUKE JOHNSTON: We had that discussion yesterday, yes.

MR. MATTHEW GHIKAS: Okay. And just for clarification, is MPI actually proposing this methodology?

MR. LUKE JOHNSTON: No, we're not and part of the issue here in my response is that -- definitely answering like an actuary which we talk about claims liability discount rates. I think we'd all agree that if we updated all the information constantly, we'd have a more accurate rate indication but that isn't really possible or desirable as part of this regulatory process.

So again, we're proposing to submit the

filing as filed, with the exception of the Government of Canada 10-year bond rate, which is something that we update really ever -- every year now at this hearing process.

The only change here would be to update it later in the process to get the best information to the Board and, really, if -- if we think interest rates -- like, if we think interest rates are rising, which some people do, that would give the most opportunity to ratepayers as well to reflect the impact of that rising interest rate if it happens. And if it doesn't, then that's also appropriate.

MR. MATTHEW GHIKAS: Okay, so what -- what is the -- maybe I can ask, if you recall -- if you recall later in the day there was an extended huddle, and some confusion that came out of that when there were some questions put to you about the impact of changes in the corporate bond strategy, and how that would affect the compliance filing.

So just -- do you recall that?

MR. LUKE JOHNSTON: I do.

MR. MATTHEW GHIKAS: Okay. Now, the -- that discussion, does that have any implication for what MPI's actually proposing in the proceeding, or does it relate to this other strategy?

MR. LUKE JOHNSTON: It doesn't have any implication to MPI's compliance filing proposal. When you start -- like any portion of the application, if you start changing -- you could change the claims' forecast, you could change a revenue forecast; that's not what we are asking to do here.

The -- my response to that question was, really, in relation to the impact on the claims' liability discount rate, not the compliance filing process that we put forward.

MR. MATTHEW GHIKAS: Okay. Thank you for the clarification and, thank you, Mr. Chairman.

THE CHAIRPERSON: Okay. Thank you, Mr. Ghikas. Ms. McCandless...?

CONTINUED CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Just one (1) follow-up question to the clarification.

So, Mr. Johnston, you said you could provide the Board with an update that's typically been provided to the Board in past but just later in the process.

So, would that update be provided before the close of the public hearings or after the close of the public hearings but before the issuance of the Board Order?

MR. LUKE JOHNSTON: Our proposal would be the latter. And we've put forward November 30th, but there's no -- like, we believe that that's the latest in the process that we could give the best information to the Board. It doesn't have to be right on November 30th.

But, we're just saying before the Board Order would be I think preferable to every -- to everyone.

MR. MATTHEW GHIKAS: And if I can provide any assistance in this regard, what mechanically would happen, Mr. Chairman, to facilitate that and what is often done in rate proceedings that I've been involved in is that the record is closed at the end of the hearing, subject to the outstanding undertakings effectively being provided.

And so, effectively -- the nomenclature that was used in the application calling it a compliance filing is actually a source of the confusion because it really isn't. What it really is -- is an undertaking to update the forecast as of November 30th. And then the record, then closing after November 30th when it's filed, Commission would then -- or the Board would then issue its decision afterwards.

THE CHAIRPERSON: Yeah, the problem, Mr. Ghikas, is that when you provide an undertaking -- once an undertaking is provided, the -- either the Board or the Intervenors would normally have the opportunity to cross-examine on the undertaking if they had any questions.

In what you're proposing, essentially, the undertaking would be given without that opportunity.

MR. MATTHEW GHIKAS: That is what we're proposing, Mr. Chairman, and that's why the -- the update is restricted to updating the naive forecast of that Government of Canada bonds because it is -- it is what it is. And there would be no, you know, peop -- we already have the sensitivity analysis on the record so people can actually see a change in the interest rate and what -- what that would do to the rate indication and there's no -- there's no issue for dispute as to what, in fact, it is. So that -- that is the proposal in any event.

THE CHAIRPERSON: Yeah, I guess -- well, we'll take a look at it. I guess my -- my concern after practicing for thirty-seven (37) years is I've often seen situations where there's no reason for dispute and there's always a dispute so.

But, certainly, we'll -- we'll, you know, we'll take it into account and discuss it more later. Thank you. Sorry, Ms. McCandless...?

CONTINUED BY MS. KATHLEEN MCCANDLESS

MS. KATHLEEN MCCANDLESS: No problem. Thank you. Good morning, I'm going to resume my cross-examination with questions about IT strategy projects and some questions on the Gartner CIO scorecard, this morning.

So, Mr. Yien, in your direct evidence you mentioned the value management process and you spoke about it in some detail. And so, as I understand it, the value management process contains four (4) major components; the first being, business case development?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Then business case approval?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Then business transformation office project delivery?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And post-implementation reviews?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And as I understood your testimony, the value management process would applied to all initiatives going forward.

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Does it apply to existing IT projects?

MR. PETER YIEN: The IT projects that are currently existing, have already been in flight, so they do not but they do apply to all future projects.

And as a matter fact, for purposes I guess of this GRA -- I want to make sure I answer this correctly, would -- when we actually filed in the GRA process, the value management process is going through a continual maturation process. I meant -- what I mentioned was as much as we have defined what's included there, we're still in a process of refinement.

So the idea is that we would have a running start at -- when we get to March 1st, all projects that start there will all be having business cases. We already starting to implement that now. So, the answer to your question is a portion of the projects that starts this year will have it.

MS. KATHLEEN MCCANDLESS: So a portion of IT projects --

MR. PETER YIEN: That have start --

MS. KATHLEEN MCCANDLESS: -- are now using the -- the value management process?

MR. PETER YIEN: Yeah, just to be clear, all projects that starts as of right now, moving forward, will have it.

MS. KATHLEEN MCCANDLESS: And then it will apply to all future IT projects, is that right?

MR. PETER YIEN: That's exactly right.

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up IT section of the filing, page 8, please. If we just scroll down a little bit.

The Corporation writes here that the initiatives planned for the rating years are somewhat limited and there are -- there's a list here of projects which are described as "initiatives planned for the rating years," which are extensions of existing project. So, we see human resources, management system phase 3 and 4, customer claims' reporting system, customer self-service and if we scroll down further, technology risk management and AOL CARS replacement; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And yesterday we looked at a list of all current IT projects. And if we could just pull that up, that's at PUB-MPI-1-30, appendix 1.

And so there -- that's the list of the thirty-three (33) ongoing IT projects; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. So -- and I don't need to take you back to the previous screen but my observation is that those projects listed in the previous screen are all reproduced in this appendix.

MR. PETER YIEN: That -- that's correct. Essentially it gives you a more granular detail. So these projects, in effect, could be mapped back to the categories of project that you saw earlier.

MS. KATHLEEN MCCANDLESS: So, are any of the new IT initiatives planned at this point for the rating years or are the projects, essentially, closed at this time?

MR. PETER YIEN: We -- the projects --

let me answer that in two (2) ways. There are no new IT projects. Let me define "new." No new initiatives, for sure.

I mentioned yesterday that there are projects that we need to do to keep the lights on. We -- we continue to do that. So if we need a new computer we'll -- we'll replace it. Other than that, patching -- software patching just to keep the -- we refer to that as technical depth, where if we have to keep things current we'll do that.

So I don't defined those as new, but other than that, there's no new projects.

MS. KATHLEEN MCCANDLESS: Are you able to tell me if any of the projects in this list are following the value management process?

MR. PETER YIEN: They all follow various degrees of the value management process, because the value process -- the value management process is not new. The requirements and the stipulations that we put on in terms of business cases and what's the thresholds, those are new. So they -- they all do.

MS. KATHLEEN MCCANDLESS: Has the Corporation given thought to the number of IT projects it would consider manageable?

MR. PETER YIEN: Let me refine that a little bit. We are looking at projects at a very granular level and from a project management perspective, it's really important to look at what we are doing at a more granular level. I liken it to building a house, putting the floors in is a project, putting the conditioner in is a project. Those are projects.

But we also need to look at all these projects from a program level. Let's -- let's think of what is the top of the house, whole house perspective. So these are very granular views of -- of the project. We manage these projects, what we call program management. So, it's the entire house and so we have to manage the projects at a granular level, but in terms of the value and the related costs, we manage it at -- at a broader level.

So, there -- there's no intention to reduce the number of projects, because what you're seeing there is a more tactical view of how we look at building and getting to our business case which, ultimately, is to solve a problem. And when we solve a problem it will get granular because there's different pieces that requires different resources, different capabilities, and that's what you're seeing here.

So the -- there is no plan to reduce it per se, but I think if we go back to the previous page that you showed which is the five (5), that's probably a more manageable way to look at how we are actually managing the projects down. And I guess the question is, you know, should we reduce that number to a four (4) or three (3)? That's to be determined as part of our upcoming business strategy.

MS. KATHLEEN MCCANDLESS: Okay. So, thank you for that -- that lengthy response.

Am I to understand what you're saying that the -- in the Corporation's view, thirty (30) -- thirty-three (33) IT projects is manageable from its perspective.

MR. PETER YIEN: Absolutely. In fact -- in fact, we don't take on more projects than we can bear. So that's part of our budgeting process. And we know -- we actually keep track of what we're capable of doing.

So we do have a pipeline of projects that we would like to take on. But that's for planning purposes, and we are very clear on -- not to exceed our capacity. And that's part of the value meth -- that's actually part of the BTO's role, is to ensure that we don't take on too much, and that we're actually watching the progress of existing projects. Oh, I do want to add one more point. And it is important to point out that many of the projects are in different forms of completion as well. So I don't want to give you the impression that all of them are in-flight. That's -- that's a important view.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to Pages -- Pages 10 -- and starting with ten (10) for IT.

So here under -- under -- starting at 2.2.3 following through to Page 10, we see a number of, or pardon me, ten (10) to eleven (11). We see a number of technology and modernization projects listed.

MR. PETER YIEN: Okay.

MS. KATHLEEN MCCANDLESS: And so I believe I understand your evidence then. Because these are existing projects, they aren't following the value management process.

MR. PETER YIEN: They are following -- they are following the value management process, just not the refined version of the refined -- sorry, refined version of the value management process.

MS. KATHLEEN MCCANDLESS: So perhaps

you could explain -- we went through at the beginning of your testimony this morning. Those four pillars that are part of the new value management process. So is that what you're referring to is the refined value management process?

MR. PETER YIEN: Yes. I -- I -- let me give you an example. Moving forward -- we've always had the concept of business case. But moving forward we've now put into stipulation that any projects greater than five hundred thousand dollars ($500,000) will require one. So we did not have the same thresholds in the past. It was more a judgmental nature.

So, therefore, moving forward we are more refined in requiring a business case with that threshold.

MS. KATHLEEN MCCANDLESS: And so when you say that those existing projects for technology modernization are following -- following "the value management process," perhaps you could just fill me in on how they're following the previous value management process.

MR. PETER YIEN: Sure. The value management process is about keeping accountable for project that we decide to execute. So it starts with the generation of ideas; are they challenged? They get challenged in the previous value management process through various forms.

It could be challenged at the executive level, or one (1) level down before the idea even gets discussed any further. After that, the -- the idea gets refined, gets further discussed. And then ultimately at some point they'll say, Well, are we ready for this? From a technology people/technology process perspective.

And with that the case, there is some sort of a write-up on it. It may not look like a business case but it gets shared. And it gets shared through email or through meetings and then after that point, there's discussions on, How do we calculate the benefits? What are the costs associated?

And we have to bounce that off through others that may have done it before. I said yesterday, sometimes we share with our colleagues. Our comparative organizations, like SGI and others, for example. So after those discussions happen, we start to refine and start to frame what that benefit looks like.

The cost a little bit more difficult. Particularly, if we're doing something new. And so we go through that process of building it.

I just want to differentiate the difference between the past and now. The future means that all of that information is captured in one document, which we call a business case. When I said earlier that we follow value management process that was a little bit different, is all those things are being done, including all the way down to when we approve a business case. Management approves the business case through an executive committee meeting. The Board reviews the benefits of that business case and all that information as part of that meeting.

Moving forward though, the business case becomes a very integral part of it. It just means capturing all that information in one spot, for ease of reading, for ease of review. So that is new. So in the past, the projects have gone through that process.

MS. KATHLEEN MCCANDLESS: So does -- does that mean that the -- if we -- I won't name them all, but they -- the four (4) technology modernization projects that we were just looking.

Would they have had business cases?

MR. PETER YIEN: They would not have what we'd characterize as a one-document with the business case, no, that's the refinement.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And the progress of these projects, are they being managed through the business transformation office?

MR. PETER YIEN: Yeah. Let me clarify that before I answer your next question. I don't want to give the impression that we don't have business cases. What I will say, is we don't consistently have a one-document that describes everything. So we do have business cases for some projects, is the way we envision it currently, moving forward in the future. That's kind of the newer refined standard.

We have information that effectively if you mapped it to a business case, you could re -- you could redo that, if you will. We could fill in the blanks using the new templates, that just takes time. So we do have that information. So essentially, the refinement is more formal documentation.

MS. KATHLEEN MCCANDLESS: Okay. And so I'm not sure if I got your answer, previously. Which -- which is whether the -- the technology modernization projects are being monitored through the business transformation office at this time?

MR. PETER YIEN: Yes, they are.

MS. KATHLEEN MCCANDLESS: Thank you. So when the Corporation is evaluating an IT project, does it, as matter of course, identify project risks?

MR. PETER YIEN: Absolutely.

MS. KATHLEEN MCCANDLESS: And that's -- presently, and that was in the past, as well?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if so, then, what types of risks are typically identified?

MR. PETER YIEN: Yeah, let's start with -- I think in the last year's GRA, we talked about making sure we optimize technology. What we mean by that is, as technology gets old, we have to bring it current.

And in my opening address, I talked about, that software when it becomes old we have to upgrade it. And with -- there's different ways of upgrading. It could be a patch. It could be applying a new version. It might even mean buying new software or perhaps if -- if not available, we may have to develop our own.

And it doesn't stop there. We have to think about, well, if we buy a new piece of software what unexpected impacts could it have? It may not work with our existing software, which means we may have to tweak something. It may create security issues because it opens a door that we never expected, so we have to fix it.

So we look at all those risks. Just keeping something current is not as simple as, Let's buy piece of software and patch it up. That's just an example of what that is.

The other types of risk that technology looks at is change management. We talked about people, process and technology. When you put a new piece of technology in, it requires new skills. We have to train our people. Would it work, within our existing process? Sometimes a piece of technology doesn't quite work exactly the way you think it would. So then we would have to be -- redesign a new process. If it doesn't do (a), well, maybe we have to manually do it and let the system do the rest. So we look at all those risks.

The other one is also organizational readiness, you know, as much as we want to implement a new piece of technology we do have to factor in how much is it costing to do this. We need people, software doesn't just install themselves. We have to have people that have the capability to install it. People that have the ability to redesign the process that I just talked about and all that training.

So going back to your question earlier, How do we decide to take on projects? That's the beginning of the risk management process which is, essentially, to take a look at this to say with all these risks that are described, should we go ahead?

MS. KATHLEEN MCCANDLESS: Thank you. So, the Corporation then -- its IT governance process at this time to ensure they manage correctly according to budget, et cetera, that is now the value management process is going forward.

MR. PETER YIEN: Yes. Their managing of budgets again has always been there. I just want to emphasize the -- the key point is really the thresholds in which we decide to build a business case. We've also refined the business case template in itself, so that, you know, everything from ease of reading, to putting a little bit more rigor in what goes and it, essentially.

MS. KATHLEEN MCCANDLESS: So the threshold for what requires a business case, what is the thresholds set at now?

MR. PETER YIEN: Five hundred thousand dollars ($500,000). And just to put in perspective, that's exactly our capitalization policy. So it aligns perfectly. So in the future if our capitalization policy changes then the value management process would be, again, refined or updated to reflect the same capitalization target.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, at Page 5 of the IT section of the filing, there's a reference here to Order 162/16, which was that in this GRA MPI was to file an overall five-year strategic plan with respect to its IT projects.

And as we know that has not been done. It's not been filed with the Board this year. It's something that's going to be looked at by the Board of Directors in the last quarter of fiscal 2017/'18, is that right?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And then following that -- that direction from the Board of Directors, what does N -- MPI anticipate the timeline will be going forward?

MR. PETER YIEN: Yeah. We -- we do have to follow the new timelines that's been established in the mandate that -- the revised mandate letter from the minister. Do you need the exact timelines?

MS. KATHLEEN MCCANDLESS: General

timeline.

MR. PETER YIEN: And our timelines, we fully expect that the -- the strategic plan to be completed in Q4 of this year. So before March 1st, we would have it completed.

MS. KATHLEEN MCCANDLESS: Okay, so it would be filed in next year's GRA.

MR. PETER YIEN: Absolutely.

MS. KATHLEEN MCCANDLESS: So, following on that IT strategy question. You mentioned in your direct evidence that the 20th, you called it the 2016 IT strategy, remains the relevant tactical plan.

MR. PETER YIEN: That's right.

MS. KATHLEEN MCCANDLESS: And just for clarification. That was the IT strategy that was filed in the 2016 General Rate Application.

MR. PETER YIEN: Let me just check that. The IT strategy was dated June 12, 2015. If that's the document you're referring to then -- then that's the correct one.

MS. KATHLEEN MCCANDLESS: Generally, can you comment on what the purpose is in creating an IT strategic plan.

MR. PETER YIEN: The purpose of

creating an IT strategic plan involves I think really three (3) things:

The first one (1) is just ensure that we're inline with the business strategy. That's -- that's critical that's important. A lot of that relates into the more innovative value creation type projects. They -- they -- they're a little bit different. And those -- for those types of projects with not having anything new until we have the new business plan in place.

The second one is the ones that we talked about just keeping current. I'm just going to refer back, if I can, to the original slide that you have put on, if we can put that back. The page that you had earlier about the four (4) categories. Let me just flip back. Yeah if I can refer back to Page 5 of the IT sector, IT dash -- .2.

So I just referred to strategic planning that -- that's a very important element where we can't really do much about it until we move forward with the finalization of the business strategy. But the other two (2) pieces are equally -- three (3) pieces are equally important.

The external events. If there's a legislative change that would drive a change in the system then -- then we would need to hear that. What's a good example that? Probably Uber -- Uber. That drive changes in the way we think about things in the way we would have to process. Like, it's really process driven. So it would drive system changes when there are external events that -- that we may not be able to control, including a legislative change. And those we must do, regardless of whether we have a business strategy or not.

Next one is societal changes. Moving forward, if we decide to make changes in our policy, the nature of the policy, the nature of the way claims are made, and so forth. If it's determined that we need to do that, let's say, one day, that our society demands that they're able to do everything online. They just refuse to line up. What do we do? As a Corporation, we have to address that need, and it's something that we may not be able to deal with without making technological changes. Flipped to the next page, please.

Now this part is -- is important because it relates to the technology risk management that you asked earlier, you know, what are the risk that we look at? As much as we think about technology and applications, we sometimes take it for granted that things just work. It doesn't really take much for -- when we -- when we apply an upgrade to a piece of software it could cause these unintended consequences. And so we have to upgrade, and if we don't upgrade a piece of software, it becomes unsupported. And what that simply means, in my view, is that you're on your own. That's our vendors to say -- that's our vendors way of saying, If anything goes wrong with your -- with you -- with the software or hardware and you don't upgrade, we can't help you.

So you don't want to put ourselves in that position and, therefore, those updates and upgrades are actually essential and it is part of our technology risk management moving forward. And that -- that's -- that's the piece that -- when you saw the projects, that technology risk management stands on its own because without that, nothing else could potentially work. And that could be really serious and end in cons -- in unintended consequences.

So these relate to software upgrade, infrastructure related-type upgrades, like operating computers, networks and so forth. So that's kind of a tactical IT strategy.

MS. KATHLEEN MCCANDLESS: Thank you. And you would agree that having an IT strategic plan is part of overall best practice for IT.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: With a new strategic plan on the horizon, will new IT projects be deferred until plan is approved by the MPI Board?

MR. PETER YIEN: I -- I'm not in a position to answer that because I think the Board needs to decide what the business strategy is. But just in terms of answering you generally, absolutely. I've seen in other organizations where, when a business strategy is changed, you may speed up the project, you might want to slow it down. In some cases cancelled only if the value of cancellation exceeds the costs already incurred. So you don't end up throwing away something that's potentially valuable but all three (3) of those options are entirely possible.

MS. KATHLEEN MCCANDLESS: So it's possible, there could be new IT initiatives before the launch of the next strategic plan.

MR. PETER YIEN: The launch of the next business strategic plan?

MS. KATHLEEN MCCANDLESS: The IT strategic plan. That new plan on the horizon. As I understand your evidence, I think it's that there are some processes that would need to be initiated before that plan is --

MR. PETER YIEN: Yeah, I would just answer it this way. After the business strategy is prepared, it would then -- we would need to align and update the IT strategy. And if it means creating a new initiative to meet that business strategy, we would do so.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up attachment 'A' from the benchmarking section of the filing.

This is the Gartner CIO scorecard and infrastructure benchmark. So this is Gartner's annual review of the IT service capability of MPI.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: If we go to Page 7, the bottom of the page, under implication, the third bullet, at the very bottom. Gartner comments that increased uses -- use of business cases will hold business stakeholders and IT accountable for achieving projected benefits and value.

So the implication of the comment here, then would be that MPI at this point with not using business cases to the extent that Gartner would -- would think would be ideal.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And what risks do you see occurring here?

MR. PETER YIEN: Yeah, in an ideal world, I would totally agree that we would have business cases for everything. And that -- that -- that's certainly a best practice.

There are some times when the business case itself will evolve and needs to be updated and I also believe that that's important when circumstances change. So I do agree with you that having the business case itself in one (1) document is extremely valuable, but I would also need to think about if a business case was there, but without the proper governance of review, challenge, discussion, generating of that idea whether it is a good idea or not, enhancing that, doesn't happen in a business case.

When I refer to a value management process, I'm talking about the entire process of getting to a business case. So having a business case is actually important, but we need to continue our valuement -- process -- our valuement procces -- our value management process which included all of the other thing -- factors that I talked about. So, yes, we do need to be more formal. Although we discuss the value of the benefits and -- and the costs. The documents do exist, but it's in one (1) document, then there's another document, then there's another document. Do we need to put it together in one? Absolutely. And I think moving that would create simplicity of review moving forward.

So the risk is, it is possible to answer your question. The risk is it is possible that through that process we might miss something. So having everything at one (1) spot is actually helpful to ensure that we've got everything.

MS. KATHLEEN MCCANDLESS: And so the reason why in the past MPI has not necessarily used one (1) document as a business case for IT projects, can you comment on that? Is it -- was it budgetary or a governance issue?

MR. PETER YIEN: Let me check.

(BRIEF PAUSE)

MR. PETER YIEN: The past process was more informal, and we recognize that that's an area that we could improve, and hence the new value management process creates a more formal process.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB-MPI-2-29.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this was a question about the long-term IT strategy that was used to assist the work of the enterprise architecture committee. And if we scroll to the response, there's a comment here on -- on what that committee uses as far as strategy. And then at (b), we see the current membership of the enter -- enterprise architecture committee --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- the corporate business architect, the corporate system architect, and the corporate information security officer. My question is just with respect to the enterprise architecture committee. What's its role with respect to IT strategy planning and governance?

MR. PETER YIEN: Sure. You know, as end-users, when we use a piece of software, we just see the software. We don't really think much about what the -- what -- what it takes to keep that software running. The operating system that we use drives that software, and none of us really do care behind the scenes what it was.

You may -- you may remember yesterday I asked all of you what version of Windows we're using. Well, that's -- that's an operating system. And for the most part, we don't really care much about it, but for IT folks, it's important, because when you upgrade a piece of software, it may not work properly if it's with another operating system. And it's -- in some cases, it may not work at all. It stops functioning.

So that's one (1) area of architecting. But another area is the actual hardware that it runs on. And we need to make sure that we buy the right, power of hardware, if you will. You know, if we buy a machine that's not powerful enough, it's not going to run fast enough, and we're going to have service-level problems. If we buy a machine that's way too fast, well, we're wasting our ratepayers' money. And what's the volume growth?

So all the stuff becomes very important when you start to our call it architecting, designing the infrastructure that underlies that. That -- that -- I call it the railroad tracks, right? What does it take to run that piece of software?

But we don't stop there, because what

happens is with technology, as we all know, people find a way to break in. We hold confidential information for -- within our business, and we need to protect that. And as I said earlier, when you run a piece of software with a different type of operating system, when you change one or the other, it creates these holes, and that's what hackers take advantage of. As soon as you have different pieces working together, there are gaps in between, if you will, and they find a way in. And that's why we have to incorp -- incorporate the input of our chief information security officer.

And all those pieces are really important. And if there's a really huge security risk of implementing something, we may not do it. So as much as we want to tie everything to our business strategy, we need to protect the interests of our ratepayers as well. So that's -- this is where I would call it where the business meets technology, and where the application meets technology.

MS. KATHLEEN MCCANDLESS: So if I'm to understand your description, then, the role of the enterprise architecture committee is to provide input on IT projects from a -- more of a security perspective?

MR. PETER YIEN: Security, applicability, sizing, how big do you go, and then all that stuff would drive, like, efficiency. So it's really efficiency, accuracy, completeness, privacy, availability -- all those things are kind of managed by this group.

MS. KATHLEEN MCCANDLESS: Thank you. Diana --

MR. PETER YIEN: One (1) more thing I also want to say; continuity as well. That's important, because sometimes when things break, we have to make sure that we have the ability to have the appropriate disaster recovery in place, and all of those pieces are important. We don't want to get too far ahead of the curve where we may not be able to operate when something goes wrong, so.

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up PUB-MPI-1-29. And you can just jump to Appendix 1, page 9 of the appendix.

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: In this Information Request, MPI was asked for a copy of the business transformation office prepared status update on major IT initiatives, including forecast, budget to actual spending. So if we can scroll to the bottom of the page, this -- this project here, so this is the Technology Modernization Program, technology risk management?

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: Can you just explain in some more detail what this project is about?

MR. PETER YIEN: Yeah. Essentially, I think it's accurately describes it. It's essentially a -- a version platform upgrade. And it is important for us to stay current. We have an older version of INFOR.

And as I said earlier, as part of technology risk with -- to ensure that we don't fall too far behind and for our financial application, we certainly don't want to get in a situation where we get into continued non-support. That would be actually quite dangerous. So this is essentially what it's about.

MS. KATHLEEN MCCANDLESS: And you said that you're running an older version of INFOR? Is that --

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: That's I-N-F-O-R?

MR. PETER YIEN: Yeah, INFOR, yes. I-N-F-O-R. Yes.

MS. KATHLEEN MCCANDLESS: If you scroll to the bottom of this page, we see the -- the budget.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So the total project budget as at March 1, 2017, is seventeen (17) -- $17 million, which is quite substantial. Of that, we have $4.5 million budgeted for 2017/'18?

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: Can you explain what benefits this project has generated for the Corporation thus far?

MR. PETER YIEN: Just a minute. I'll get you that.

(BRIEF PAUSE)

MR. PETER YIEN: As I said earlier, this was about technology risk management to ensure that we not increase in our technical debt. We do know that if we don't do this all at once, it will compact itself in a very, very -- call it a big explosion, so to speak, when things don't work. And it would involved in the larger cost in this.

So this is about risk management. We -- this is something we have to do. And if we don't, it simply means will have to spend more during the life cycle, and we -- we just can't afford to -- to do that.

MS. KATHLEEN MCCANDLESS: So has this project seen benefits to date for the Corporation?

MR. PETER YIEN: Absolutely, because as we upgraded, we already know that for what we've accomplished so far, we wouldn't actually know what it would cost if we didn't do it, and that itself, I think, is a -- is a real benefit.

The second thing that I want to also mention is you -- we don't want to run our systems to a point where they stop working. I don't know what the cost is, but if I was to tell you, We can't issue financial statements, and things have just stopped, and we are unable to do so, and we miss a few reporting deadlines, I would think -- as a CFO, I would find that completely unacceptable, and we can't put ourselves -- there's no way we can put ourselves in -- in that position.

I will say one (1) more thing. Typically, you know, with finance-related transformation projects, that the value is not necessarily a -- a very well-defined benefit to say, you know, We're going to eliminate all the staff. I view this is as a certain piece of this. Think of it like a calculator. We need it. We have to make sure that it does its job, and it doesn't stop working. And it is essentially a -- a real cost of doing business.

MS. KATHLEEN MCCANDLESS: If we scroll to the top of the page --

THE CHAIRPERSON: Sorry. Can I just -- can I just ask a question on that? Just a quick one.

What does LTD actual stand for?

MR. PETER YIEN: Life to date.

THE CHAIRPERSON: Life to date. So it's the amount spent to date?

MR. PETER YIEN: Yeah, because the project --

THE CHAIRPERSON: Yeah.

MR. PETER YIEN: -- is, like, multi-year, right? So, yes.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: If we go to

the top of the page, under the program title, the start date we see was March 2016?

MR. PETER YIEN: Yeah.

MS. KATHLEEN MCCANDLESS: The projected end date is February 2017?

MR. PETER YIEN: Yeah.

MS. KATHLEEN MCCANDLESS: Is the project still on track? Well, it was projected to be complete by February 2017, and there's still a significant amount left in the budget. So I think the implication is that the project is ongoing?

MR. PETER YIEN: It is ongoing. It's slightly delayed, but we -- we do expect to do a -- finish Q4 of this year, and it's on budget as well. Okay.

MS. KATHLEEN MCCANDLESS: Now I'm going to ask you some questions about technology obsolescence.

MR. PETER YIEN: Sure.

MS. KATHLEEN MCCANDLESS: And the 2015 IT strategy contained an intention to eliminate obsolete technologies. If you want, I can pull up that reference for you -- I --

MR. PETER YIEN: Sure. That will be helpful. Thank you.

MS. KATHLEEN MCCANDLESS: Diana, that's from the 2016 GRA, the IT 'S' section, page 35. Just scroll down.

We see at the top of the page, there, there's a comment of eliminating obsolete technologies to reduce -- reduce risks to application availability?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain why it's important to address obsolescence?

MR. PETER YIEN: Yes. Just leveraging on what I talked about before, it -- it is possible to use a piece of software -- a piece of software until it kind of dies, but that would be completely irresponsible, from a risk management perspective, because we'd never do that with our CARS, hopefully. We will never do that with anything that we own.

It does require us to look at, what's the cost of upgrading, what's the cost of deferring that upgrade? Do we wait long enough until something becomes available and buy it? And then do we build ourselves?

Each of those are risky decisions that we need to make. It involves us conferring with other insurance companies as to what they are currently doing today. There is some risk-taking involved, because no one really knows. Software companies talks about building software that works. And as you know, there's version 1. Do you know why there's version 2? Well, because version 1 didn't meet the need. And then as version 2, it didn't quite the -- meet the need. And on and on and on. So even buying an application takes on certain risk.

So when you asked about reducing the risk and what that means, this technical debt is not a simple discussion. It requires collaboration with our peers, collaboration with the vendors that we are working with that has the view of they -- what they are working on, what they are not working on. We need to take a look at the capability of our team to see if we -- can we develop it ourselves? Do we have the skills? Are there consultants available to help us with that?

So of that is a very complex discussion that ultimately boils down to: Okay, now we've seen all that, and we've discussed all of that. What's the best approach, moving forward in terms of still keeping current, and what's the path moving forward?

And when we look at the risks that are associated with the unsupported vendor products -- we talked a little about that -- we don't have -- only have one (1) product. We have quite a few products. And what this is talking to is we need to watch each product to ensure that none of them on its own have a technical debt that would seriously impair the operation of all of the products working together. Think of it as the weakest link, and what this is about is making sure that none of those links that are critical becomes obsolete.

MS. KATHLEEN MCCANDLESS: Would you agree that upgrading to the latest operating systems and keeping up-to-date business applications and desktop applications would minimize, then, the risk of obsolescence?

MR. PETER YIEN: The answer is yes, but from a -- from a risk perspective, we may or may not upgrade to the most current version. Sometimes when you upgrade -- when we all upgrade to the latest version, there are issues. If you own an iPhone, you realized, if you had upgraded to the most current version on that day, there was a bit of glitch and actually freeze up the iPhone.

And so what I do personally is I tend to wait for a version minus 1, meaning that everybody else can have fun, and if they have problems with it, let them deal with it. And then -- and then we -- we upgrade a -- a little slower.

So it really does depend. In other cases, where we are really behind, upgrading to a more current version, supported version, may actually be a better decision. So it does depend on the circumstance, but yes, upgrading in general does reduce risks.

MS. KATHLEEN MCCANDLESS: There's obviously a cost to managing an upgrading process?

MR. PETER YIEN: Absolutely. The cost associated with managing an upgrade process to start is to analyze the risk for the upgrade itself. Secondly, what are the implications of that risk if we upgrade it on other things that we don't know about, the interoperability, I call it, between the software itself.

In other words, would one (1) piece of software work with another piece of software? Would this piece of software and this piece of software work with the hardware? So yes, we do look at all of that.

MS. KATHLEEN MCCANDLESS: What would be the Corporation's typical frequency for a technology refresh?

MR. PETER YIEN: The technology refresh is a continuous piece, because we can't do everything at once. So it is definitely something we do throughout the year. And actually, that's an excellent question. It actually ties back to -- that's the reason why that when we upgrade technologies, it's not exactly tied to the business strategy, because if we find that there is a problem down below, and we need to do it now, that's not dependent on a business strategy. If we have to upgrade the operating system, we're not waiting for the business strategy to be finished before we upgrade that.

MS. KATHLEEN MCCANDLESS: Are you able to comment with respect to purchased or licensed products whether a typical refresh would be, say, on a five (5) year basis, or can you give a number for something like that??

MR. PETER YIEN: I don't think I can generically give you a number, but I can say we have different refresh cycles for our laptops, for example. The -- the hardware itself we -- we would it when -- whenever we need, and we do consult the experts in that field to determine what we need in what cycle.

MS. KATHLEEN MCCANDLESS: Is MPI using any projects that might be implementing a noncurrent software currently?

MR. PETER YIEN: Can I -- can you repeat that question?

MS. KATHLEEN MCCANDLESS: Are there any projects with MPI where there is a noncurrent version of software being used. For example, I believe MPI is running SharePoint 2013.

MR. PETER YIEN: Yes. So I would say definitely. You know, it wasn't until recently that we upgraded to, for example, the latest version of Microsoft Office. So absolutely, there are always software that we will not be on the most current version, and for good reasons.

And in fact, in some of the areas, it's a cost-benefit discussion. And perhaps I would argue that, you know, at some point, we should not be on the most current one, because if we are on the most current one, we will not be very cost-efficient.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up page 10 from the IT section of the filing.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: 2.2.5. That's the information security strategy and roadmap.

And as I understand it, this is to assist and guide MPI in the adoption of security policies, processes, and -- and procedures using the ISO 27001/27002 standard?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And I believe that strategy was outlined in the 2015 IT strategy as well, the roadmap?

MR. PETER YIEN: Yeah. I believe so, yes.

MS. KATHLEEN MCCANDLESS: Can you explain what ISO is?

MR. PETER YIEN: Yeah. ISO stands for International Standards Organization. They publish a whole variety of standards. The 27001 and 27002 specifically relates to security. It's quite judgmental. It is not a rigid standard. It requires the thought about -- I call it what's really important to the organization. So there are degrees of judgement that one can apply to meet the standard.

MS. KATHLEEN MCCANDLESS: Okay. And specifically, what is ISO 27001?

MR. PETER YIEN: It -- it relates to a whole bunch of -- I call it -- you know what, maybe I'll go backwards -- I'll go backwards.

In order to implement a good security standards, it starts with governance. Once you have the proper governance like having the right structure in place -- someone like a certified information systems officer the ability to go directly to the board, which is important, board of directors for MPI.

I believe that is kind of the standard, and the standard says, Well, once you have something like that and the structures in place, you need to start with having good policies. You know, what are you -- what are you going to do in terms of your security? And then underneath that, you had a process. And then after that, there will be a procedure.

So -- so let me illustrate that. You may have something that says, The policy is that we would remain current -- version -- we would remain current on our virus detection. Let's call it that. The process may be we'll make sure that we check what virus patch is available on a hourly basis. It might be that.

And then the procedure would then be, We can apply -- well, maybe not -- you have to check what that patch is actually doing, the implications on our software. And then you say, Well, we'll apply that patch either immediately or with some duration to say, we're going to -- we're going to fix the system as quickly as possible. The standard goes through all -- all that. So essentially, it's kind of a -- a detailed way of looking at what overall are we doing relative to security.

MS. KATHLEEN MCCANDLESS: And that's with respect to 27001?

MR. PETER YIEN: Both of them, Twenty-seven-o-one (2701) is more general. Two-o-seven-o-two (20702) is a little bit more specific. But, yeah, essentially is does talk to that.

MS. KATHLEEN MCCANDLESS: And they relate to security?

MR. PETER YIEN: That's right. They -- they focus specifically on information security.

MS. KATHLEEN MCCANDLESS: And I understand that MPI is using these standards as a reference for the roadmap but not seeking ISO certification?

MR. PETER YIEN: That's something -- I -- I am not in a position to comment. I -- I do --

MS. KATHLEEN MCCANDLESS: I believe that's in the filing.

MR. PETER YIEN: Yeah. What I mean by

that is I -- I don't know if we are seeking it. I can't -- I can't comment on the future. Currently we're not.

MS. KATHLEEN MCCANDLESS: Okay.

MR. PETER YIEN: That's what I mean.

MS. KATHLEEN MCCANDLESS: Okay.

MR. PETER YIEN: Yeah.

MS. KATHLEEN MCCANDLESS: Can you explain the benefits of following the standard without taking that further step to seeking -- seeking certification?

MR. PETER YIEN: Absolutely. The standard is the standard. And with a standard, once we say we're going to do 'A' and we're going to do 'B', we get measured against that standard, which -- which I think is good. At the same time it's judgmental.

As I said earlier, we can vary the degrees of this. No -- no standard in there tells us, for example, the frequency of updating virus updates. We can decide to say, We're going to look for up -- virus updates on a minute by minute basis. And if we say that in a procedure, a process, and we don't achieve it what risk does it give us?

Well, what if I was to say, Well, we

said we will update and check virus checkers every minute, but I do it every two (2) minutes. I think it's okay. So following that standard means we have thought about the process, we thought of the pro -- procedure, and essentially we're willing to risk -- take the risk of looking at virus checkers every two (2) minutes if we chose that route.

But once we apply a standard and say we're going to do that, we could potentially, if we get checked after that and audited, per se, you could have a false conclusion to say, Well, you're not meeting that standard. Well, I would say if your updating something at a higher level of standard and you're measured against that, that may give you an erroneous result. So to just answer your question, following that standard makes a whole lot of sense, and we are planning to follow that standard.

MS. KATHLEEN MCCANDLESS: But the -- the reason for not seeking the certification is...

MR. PETER YIEN: Yeah. The -- the certification itself is -- can you repeat the question? I just want to make sure I'm answering it. Yeah.

MS. KATHLEEN MCCANDLESS: I -- I understood your comment on the reason to -- to follow the ISO standard, but my question is the reason for -- for following the standard but not been taking the step to seeking the certification. So can you explain the -- the reason behind that?

MR. PETER YIEN: Okay. Just one (1) -- I'll check on that.

(BRIEF PAUSE)

MR. PETER YIEN: One (1) thing I should mention is that following the ISO 27,001, 27 -- 27,002 requires change and change costs money, as I said earlier. So we have to do the complete evaluation of what it would cost to implement the entire standard and balance it with the risks.

I do want to make one (1) comment and -- and it might be obvious, but -- but it's -- it's not as obvious as you may think, is that when it comes to information security you can do everything you can. And there's a saying, It's not a matter of how somebody gets in, it's a matter of when.

And anytime when you have a system in place, one can break into that. So it becomes, Well, how many door locks to put in your house before you becomes -- you feel safe? How many bars do you put?

So there is a degree of judgment in which we have to apply here, and we are taking on that journey. It's a multi-year journey and we want to make sure that we balance the costs associated with the risk that we are taking.

MS. KATHLEEN MCCANDLESS: So I think I understand your answer to be then, the reason for not seeking the certification is budgetary?

MR. PETER YIEN: Partly, but also because we are embarking on that journey as we speak. We're not finished.

MS. KATHLEEN MCCANDLESS: Will the Corporation reevaluate at some point whether or not it intends to seek the certification?

MR. PETER YIEN: Absolutely. Every evaluation could happen in a future year.

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up PUB/MPI-1-29, and appendix 1, page 8. So this is the status of the Information Security Strategy and Roadmap Program.

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: And if we scroll to the bottom, we see that the project -- total project budget as at March 1, 2017, was set at $7.7 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Just above that, the project budget for 2017/'18 has been set aside at $1.68 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And it looks as though to date $5.59 million has been spent on the project; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. Can you explain what has gone into that $5.59 million spend so far?

MR. PETER YIEN: Yeah. Let me -- let me get back to you. I'm going to check.

MR. MATTHEW GHIKAS: Maybe if I could just interject here. I just wanted to remind Mr. Yien and everybody in the room, we just -- given that we're talking about information security that maybe just everybody make sure that -- Mr. Yien, before you're answering that you make sure that you're -- that we're okay from an information security perspective.

MR. PETER YIEN: Yeah. Thank you for that. I do want to qualify that, yeah, whatever answer I give, because of the sensitive nature, we will keep at a high level. Okay.

(BRIEF PAUSE)

MR. PETER YIEN: So the pieces that have been completed, policies and procedures that I talked about earlier. Imple -- implemented the policies. We've implement new procedures in addition to that new software.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So those are the deliverables that have resulted from that $5.59 million so far?

MR. PETER YIEN: That -- that's correct. But we're not done. But, yes. So I don't want to give the implication that we're complete. Yeah.

MS. KATHLEEN MCCANDLESS: Yes. If we scroll to the top of the page there's a projected completion date for February 2018. Do you know if the project is on track to be complete by then?

MR. PETER YIEN: Yeah, my -- my understanding is it is.

MS. KATHLEEN MCCANDLESS: What is the size of the staff that's being used on this initiative?

MR. PETER YIEN: I'll give you generically in a second.

(BRIEF PAUSE)

MR. PETER YIEN: Less than ten (10), but, yeah.

MS. KATHLEEN MCCANDLESS: Are you not able to give more detail because of security reasons or...

MR. PETER YIEN: Yeah, I think it is because if we give the exact number and the number of people internal and external it'll give potential hackers information that I'd rather not review.

MS. KATHLEEN MCCANDLESS: Thank you. Now, I'd like to ask you some questions about the physical damage re-engineering project. And that project was initiated in 2013?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: The project charter was filed in the 2015 General Rate Application. Maybe I'll just pull it up for reference.

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: Diana, could

you please pull up section AI-10, the Charter PDR from the 2015 GRA. And if we go to page 8, and scroll down. The initial project budget was set in the program charter at $65.5 million; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And if we scroll to page 4 of the project charter down to the table, we see the operational cost savings that were anticipated at the conclusion of the PDR program. And that table is in front of you.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so initially the total cost savings were estimated at $13.3 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that included $3.5 million in operating expenses?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And $9.8 million savings in claims incurred?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now, if we go to, Diana, PDR attachment A, page 22 of the PDF. This is the PDR physical damage re-engineering project or program evaluation that was prepared by Gartner for this General Rate Application?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And I understand that this appendix lists the total original projects that were part of the PDR program?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And scroll through them. According to my count there was a list of twenty (20) projects in total is part of the original PDR. Is that right?

MR. PETER YIEN: That's -- that's exactly right.

MS. KATHLEEN MCCANDLESS: And those range from page 22 through to 23 of the PDF?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: If we go to page 12, Gartner found in its report this year that there were six (6) cancelled projects?

MR. PETER YIEN: There should be --

MS. KATHLEEN MCCANDLESS: Or is --

MR. PETER YIEN: -- is it six (6)?

MS. KATHLEEN MCCANDLESS: Seven (7)?

MR. PETER YIEN: Seven (7), yeah. Yeah, seven (7). Yeah.

MS. KATHLEEN MCCANDLESS: So if we

just scroll through, there was out of province estimating that was cancelled, self-service analytics, towing, enhanced registration card, enhanced accident profiling, and bottle -- body integrity inspection certificate and certificates of inspection. So those have all been cancelled?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And then the reason for the cancellation, I won't go through, is -- is on the right-hand side of the table.

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: Are you able to provide an impact of the estimated benefits that were originally scoped out as part of the $13 million savings for these programs?

MR. PETER YIEN: Yeah. Maybe I can characterize the size of this project, because it is multi-year. One can only try to guess what the benefits are going to be and where it's going to come from. And you break it down into a whole series of projects. And it would be impossible to determine exactly how they relate. In other words, when we design phase 1 and phase 2 of a project, or even between projects.

I alluded to earlier that we have

program management. And program management is really important because we need to look at the overall benefits and whether we can achieve it. And this is a really important point because as these projects are cancelled it would determine that the related benefits are either not with it, meaning that any additional costs that are incurred is not worth doing. Or that the benefit is already met by either another solution that was already resolved through a project later or earlier. And these are harder to predict.

But I will tell you that the related benefits that we had originally planned to achieve, other than these ones that we've identified, as we don't want to do it because the incremental values isn't there, that we are meeting the business objectives. And that's kind of demonstrated, if I can refer to, on page 20 of the PDF.

When you kind of look at the net present value of this project there's a sustainable $13.6 million per -- in perpetuity that we are able to achieve. And in addition, the net result of cancelling those projects offen -- effectively saves us $4 million. And that $4 million, when you compare it to any potentially benefits that might be lost, is the cost benefit decision that we have made as an organization, that it was -- it made sense.

MS. KATHLEEN MCCANDLESS: So my question was the impact of the estimated benefits that were originally scoped out as part of those cancelled projects?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: Are you able to put a number to that?

MR. PETER YIEN: It's fairly minimal. I can -- I -- do you -- do you need the number?

MS. KATHLEEN MCCANDLESS: Yes, the -- the number --

MR. PETER YIEN: No problem. Okay.

MS. KATHLEEN MCCANDLESS: and the total budget that was allocated for that -- those projects as well.

MR. PETER YIEN: Sure.

MS. KATHLEEN MCCANDLESS: Are you able to obtain that information?

MR. PETER YIEN: Let me check first.

(BRIEF PAUSE)

MR. PETER YIEN: As I mentioned earlier, in terms of the business benefits part -- as part of the program management there's no material loss in terms of benefit for sure by cutting it. So it's definitely something that we did for the benefit of proc -- not proceeding with it. We can take an undertaking in terms of describing by reducing these projects what are the related costs that have been cut out. So we could do that.

MS. KATHLEEN MCCANDLESS: Are you able to provide the impact to the estimated benefits of the programs that were scoped out?

MR. PETER YIEN: Yeah. As I indicated earlier, the benefits that were originally associated with those projects that were cancelled are being realized through another project that we're keeping. So we have not lost those benefits.

MS. KATHLEEN MCCANDLESS: Are you able to provide the total budget that was initially allocated to those cancelled projects?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. So then the undertaking would be twofold. And the first part I -- I -- so you explain what you would be able to provide by way of undertaking. Perhaps you could just re -- restate it?

MR. PETER YIEN: Yes. So what we can

do is, we can list the -- well, we already have the list of projects that have been cancelled. What we'll do is we'll list the original budget that was all -- actually allocated to those cancelled projects.

MS. KATHLEEN MCCANDLESS: Okay. Thank you.

MR. PETER YIEN: Yes.

--- UNDERTAKING NO. 8: The Corporation will provide the total budget allocated to the seven (7) cancelled PDR projects and a comparison of where the budget allocation went estimated to actual

MS. KATHLEEN MCCANDLESS: And perhaps if I could add to that undertaking then, where did the budget allocation go?

MR. PETER YIEN: You mean in terms of compares to actual?

MS. KATHLEEN MCCANDLESS: Yes.

MR. PETER YIEN: Yes, absolutely. Sure.

MS. KATHLEEN MCCANDLESS: Thank you.

Yes. The undertaking is to provide the total budget allocated to the seven (7) cancelled PDR projects and a comparison of where the budget allocation went estimated to actual?

MR. PETER YIEN: That's right. Correct.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB/MPI-1-29, page 2 of Appendix 1. Now, this is the -- the status from the business transformation office of the Physical Damage Re-engineering Program. And at the bottom of the project description, we see that the main PDR program is complete as of February 2017, and is available for amortization. Some components of the original PDR program will continue through part of fiscal 2017/'18 under PDR spinoff projects.

Projects supporting Mitchell FNOL, that's first notice of loss, automate -- automonate -- automation will also continue into 2019/'20. The original completion date at the top of the page was projected to be February of 2017. You see that in front of you?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And so the updated completion date is now 2019/2020.

MR. PETER YIEN: When you say 'updated', you're talking about the Mitchell or no?

MS. KATHLEEN MCCANDLESS: Yes.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain the reason for the delay in the completion of the project?

MR. PETER YIEN: Yeah. Just -- let me just check with the team.

(BRIEF PAUSE)

MR. PETER YIEN: Yeah. The -- the PDR project involves this collaboration with Mitchell. And this collaboration is something that took a little longer than normal. We didn't want to rush it because it involves two (2) parties. It involves resources on both sides.

And we just want to make sure that moving forward it'll achieve the objective. So it's -- it's nothing more than taking the right due diligence to go through and do the right things.

MS. KATHLEEN MCCANDLESS: Thank you.

Mr. Chair, just to let you know, I expect to have another ten (10), maybe fifteen (15) minutes on PDR. And then I do have some other questions. So I can continue and finish the PDR section of my questioning, and we can take the break following then, or we can break when the panel would like.

THE CHAIRPERSON: Then how long do you think the additional questions would take?

MS. KATHLEEN MCCANDLESS: Maybe fifteen (15) minutes.

THE CHAIRPERSON: Okay. Let's take the break now, and we'll -- we'll come back in about ten (10) minutes. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- Upon recessing at 10:22 a.m.

--- Upon resuming at 10:40 a.m.

THE CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Before the break we were discussing the budget associated with the seven (7) cancelled projects. I just have some more questions about that. Diana, can you please pull up -- and this is from the 2015 GRA PUB-MPI-1-75.

Question (b), the Corporation was asked to file a detailed budget in support of the $65.5 million PDR project cost. And then if we go to page 2, that budget is provided at the bottom of the page.

There are a number of initiatives on the left-hand side of this table, and then for the years from 2011 through 2012 through to 2017/2018 there are allocated budget amounts, plus the seven (7) year program totally.

Do you see that in front of you?

MR. PETER YIEN: I do.

MS. KATHLEEN MCCANDLESS: Okay. My question is -- if we go back to page 12 of the Gartner report. And that list of seven (7) projects. So for each of out-of-province estimating FNOL self-service analytics, towing, enhanced registration card, enhanced accident profiling, and body -- body integrity inspection certificate and certificates of inspection and this is probably best -- on my way of undertaking I'm thinking, but, if we jump back to the original program budget.

My question is: Where do each of these seven (7) cancelled projects fall which -- within any of the initiatives on the left-hand side of the table? Where they originally fell in there.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then what the original budgeted amount was for each of those projects within those buckets.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Can we have that by way of undertaking? I -- I assume you don't have that at your fingertips right now.

MR. PETER YIEN: I don't. Let me check before I answer that, whether you can have that.

(BRIEF PAUSE)

MR. PETER YIEN: That should be no problem. Those are subcomponents, that's why there's a bigger list. So, essentially, we can map it back so that they -- they tie and then you can see how the numbers relate on -- in terms of the new report and the old. Okay, so you can see how it works.

MS. KATHLEEN MCCANDLESS: Okay, thank you.

MR. PETER YIEN: Yes, we'll do that.

--- UNDERTAKING NO. 9: To advise where each of these seven (7) cancelled projects fall within any of the initiatives on the left-hand side of the table. And then what the original budgeted amount was for each of those projects within those buckets.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So now if we can go to page 10 of the Gartner report, please, Diana. We were just speaking about the cancelled projects and at page 10 there are five (5) remaining projects listed --

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: -- to complete. So, appointment manager, customer claims reporting system, enhanced direct repair capabilities, partner portal and remote estimating?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And it's the last -- the last project is customer claims reporting system, and that will be completed in 2019/20; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: If we go to page 4 of the Gartner report, under PDR program costs. So Gartner comments on the current state of the PDR budget, and the overall program budget remains $65.5 million; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And to date, approximately $43.4 million has been spent on the program?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: With $18.1 million remaining to complete; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so the total projected spending is $61.5 million, $4 million less than the approved budget.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Is the Corporation able to quantify where that $4 million savings is coming from?

MR. PETER YIEN: Yes, I do believe when you see that breakdown, that undertaking, that should be clear on that.

MS. KATHLEEN MCCANDLESS: Okay, thank you. At the bottom of page 10 of Gartner, scroll to the bottom, there is a table of the ongoing PDR projects. The spend to date and the amount to completion; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then running to the top of the next page, so page 11, we see total PDR budget for ongoing projects at the right most side of the table is $34.7 million. Yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: I see under there is a related project Centre of Excellence and there's a budgeted total amount of $6.2 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Just to clarify, is that project outside the scope of the $65.5 million budget?

And just maybe to assist you, if we go to -- further down the page. You may have to bear with me for a second, Diana, while I find the reference but there is some narrative about that project.

Yes, in summary. So the fourth -- fifth bullet down describes the Centre of Excellence project budgeted separately from PDR but tightly related to achieving PDR success.

Do you see that?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. So, does that help you clarify then?

MR. PETER YIEN: Yeah, it does. It is a separate project, but we have to nom -- denote it because it's related. So, the budget that's -- we talked about PDR that you described is separate from that.

MS. KATHLEEN MCCANDLESS: Okay. And then if we go to table 2 on page 11. These are the completed PGR -- PDR projects to date?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if we scroll to the bottom of that table, the total is $25.9 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And included within that is -- under Others, predictive analytics/loss prevention with a budgeted amount of $2.2 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And

then if we just go to the narrative we were just looking at before, those bullet points?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So the second bullet speaks about the predictive analytics project. And again, it says budgeted separately from PDR but tightly related to achieving PDR success?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So as I understand it then, the predictive analytics project is another project that is outside the scope of that $65.5 million budget?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so, ultimately, what comprises the 65 -- or $61.5 million, as I understand it, would be what's described in bullet 1, 3 and 4 in the summary. So, the program planning and revisioning activities of $3.1 million; the number of PDR projects completed at 23.7; and the five (5) remaining projects to be completed at 34.7 million?

MR. PETER YIEN: Yeah, that's correct.

MS. KATHLEEN MCCANDLESS: Diana, can you please go to page 20. Now, this is about the -- the benefits that are expected to flow from the completed PDR project and -- and in progress PDR project?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And Gartner comments that there'll be a steady flow of benefits starting in year seven (7) and ramping to approximately 13.5 -- $13.65 million starting in 21/22?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so that $13.65 million that we see at the very bottom of the -- of the screen, is that $13.65 million on an annual basis?

MR. PETER YIEN: Absolutely. In fact, in our business this is probably a good way to clarify. Now, in a business cases typically we don't consider the -- two (2) things to look at. Typically, when we look at benefits, we look at it over a five (5) year period. Because this project is -- has a high level of duration, as it can be seen as over a twelve (12) year period, we took the conservative approach of not including within that benefit of year 13 and beyond.

If we had, the value of this would be significantly more. The net present value. So -- so we did not include as part of this calculation.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB-MPI-1-34.

At question (b), the Corporation was asked to provide a comparison of the cost benefit analysis provided in last year's Gartner reports - so that was PDR (a) - and the factors that led to a reduction in the internal rate of return, because in last year's Gartner report, the internal rate of return was 8 percent. It's now been res -- revised in the Gartner report to 7 percent.

And so if we look to page 2 of the response there is an attachment and it's a letter from Gartner.

MR. PETER YIEN: Sorry, can you scroll up a little bit. I didn't catch the (b). Thank you.

MS. KATHLEEN MCCANDLESS: So as I understand it, Gartner is saying that the drop in the net present value and internal rate of return were largely due to a reduction in the pace of benefits realization; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Just to clarify your testimony earlier about the projected benefits. It looks as -- as though, according to

Gartner, the -- the benefits continue from year 13 through the year 16; yes?

MR. PETER YIEN: Yes, that's right.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. PETER YIEN: But as I said earlier, this is a calculation. We expect the benefit to continue in perpetuity.

MS. KATHLEEN MCCANDLESS: Okay, thank you. Does the PDR budget include operations costs?

MR. PETER YIEN: Not that I know of. Let me check that.

(BRIEF PAUSE)

MR. PETER YIEN: That -- that is correct, my answer.

MS. KATHLEEN MCCANDLESS: Okay. Do you know how much the operation costs will be for the PDR going forward?

MR. PETER YIEN: I don't know on the top of my head.

MS. KATHLEEN MCCANDLESS: Are you able to obtain that information?

MR. PETER YIEN: Let me check.

(BRIEF PAUSE)

MR. PETER YIEN: Can you clarify what do you mean by -- by "cost to operate?"

MS. KATHLEEN MCCANDLESS: That would be costs to refresh and maintain the PDR system.

MR. PETER YIEN: Okay. So if I was to paraphrase that, that would be any potential development costs, any potential license fees, things like that --

MS. KATHLEEN MCCANDLESS: Yes.

MR. PETER YIEN: -- maintenance costs, right?

MS. KATHLEEN MCCANDLESS: Yes.

MR. PETER YIEN: Okay. Absolutely. We -- we can definitely undertake to do give you that information.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NUMBER 10: MPI to provide information as to the estimated operating costs for the PDR program, including maintenance cost, licensing fees and redevelopment.

MR. PETER YIEN: I will say this because some of the software pieces are relatively newer, there'll be estimates and it's only estimates, and it's got a level of precision that when we should not. I just want to qualify that.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So that was to provide information as to the estimated operating costs for the PDR program, including maintenance cost, licensing fees and redevelopment?

MR. PETER YIEN: Right, any -- any redevelopment costs, that's correct.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to the projected staffing reductions as a result of the PDR program, I believe yesterday you said that the target was for 32?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And has the Corporation mapped out when that will -- will start to be realized?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay, so

when is that?

MR. PETER YIEN: I don't have the details in front of me, but we have.

MS. KATHLEEN MCCANDLESS: Okay. Can we have an undertaking to provide a schedule of when you expect to -- or the targeted staff reductions associated with the PDR program?

MR. PETER YIEN: Yeah, let me check. Absolutely.

--- UNDERTAKING NUMBER 11: MPI to provide a schedule of when you expect The targeted staff reductions associated with the PDR program.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go back to the original PDR project charter that we were looking at earlier. It's from the 2015 GRA. And, Diana, please go to page 7, and scroll down a bit on the page.

So here starting at line 22, there's a reference to an optimized adjusting proj -- project, and at line 25 there is an intention to streamline the first notice of loss process through better claim triaging which would mean changes required to the existing CARS legacy system.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Do you have that in front of you?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then there's a reference to Fineos, that's F-I-N-E-O-S. Was Fineos to replace CARS under the original project charter?

MR. PETER YIEN: My understanding was -- it was definitely considered. But -- yes, it was considered.

MS. KATHLEEN MCCANDLESS: And the issue with CARS is obsolescence, right, technology obsolescence?

MR. PETER YIEN: Yes, it is a very old legacy system. Just -- just for the benefit of everyone here, legacy systems tends to be a written code that requires a skill set that's a little bit older. Some of the folks that would have written that cold either would have retired and maybe some would rather not do any work.

So, I go back to that technical depth

that we talked about earlier and -- and that effectively addresses that.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go back to PUB-MPI-1-75 from the 2015 GRA.

We saw that CARS was listed under optimized adjusting in the previous screen, in the program charter. And under table -- March (b) here the -- the detailed breakdown of the project budget and forecast for PDR, there is a line under initiative for optimized adjusting.

You see that in front of you?

MR. PETER YIEN: I do.

MS. KATHLEEN MCCANDLESS: So the CARS -- as I understand it, the CARS replacement was initially included in the budget for the optimized adjusting aspect of the PDR program?

MR. PETER YIEN: Right.

MS. KATHLEEN MCCANDLESS: Is the CARS budget still part of the $65.5 million budget?

MR. PETER YIEN: My understanding is yes. I'll check.

(BRIEF PAUSE)

MR. PETER YIEN: Let me clarify that. We're not doing in CARS. The functionality is still there. So the budget is there to achieve the functionality but we're not doing it through CARS.

MS. KATHLEEN MCCANDLESS: Is there an intention to replace CARS?

(BRIEF PAUSE)

MR. PETER YIEN: No, there's no intention to replace it. We're keeping it.

MS. KATHLEEN MCCANDLESS: Okay. Diana, can you please pull up -- you just have to bear with me for a second to get the reference. Appendix 1 of PUB-MPI-1-30.

And if you scroll to the bottom of the page there, at line 33 under existing -- the list of existing projects, there is an AOL/CARS replacement with a budgeted amount of $50.6 million. Do you see that?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So as I understand your evidence you've just mentioned that CARS is not being replaced but it looks as though there is a budgeted amount for CARS replacement

MR. PETER YIEN: Yeah, perhaps there is a better way of characterizing that. It -- it req -- if I could just step back.

We know that the current functionality of CARS needs to be enhanced and that functionality is met through the business case. So, that replacement is finding some solution that replaces that original requirement. So perhaps it can called functionality replacement rather than replacing -- not -- we're not -- we're not getting rid of the application.

MS. KATHLEEN MCCANDLESS: And is that budget amount separate from the PDR budget?

MR. PETER YIEN: No, I think it's part of the PDR budget. Let me check.

(BRIEF PAUSE)

MR. PETER YIEN: That's to look at replacing CARS, so, it is separate from -- I need to correct myself there. It -- it is a separate budget, but that's to look at replacing it. It's not a -- it's not replacing it.

MS. KATHLEEN MCCANDLESS: In the original PDR budget that we were looking at, at PUB-MPI-1-75 from the 2015 GRA. Under optimized adjusting, how much of that original budget was allocated to the CARS replacement initiative?

MR. PETER YIEN: Okay. One (1) second. Thirty-three (33)...

(BRIEF PAUSE)

MR. PETER YIEN: Yeah, I would suggest we add this to the undertaking as part of that cross reference. So you can actually see how they relate.

MS. KATHLEEN MCCANDLESS: Okay, so we'll have a further undertaking to advise as to the amount of the optimized adjusting budget and PUB-MPI-1-75 from the 2015 GRA was allocated to the CARS replacement. Thank you.

MR. PETER YIEN: Yes.

--- UNDERTAKING NO. 12: MPI to advise as to the amount of the optimized adjusting budget and PUB-MPI-1-75 from the 2015 GRA was allocated to the CARS replacement.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: We saw on the previous screen when we were looking at the list of thirty-three (33) projects that its -- it was CARS/AOL replacement or AOL/CARS replacement and AOL is for audit -- Autopac online; yes?

MR. PETER YIEN: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And that, along with CARS -- I won't take you to the reference unless you need me to do, but as I recall it was described along with CARS as a Tier 1 business application in the -- the existing IT strategy, the 2015 IT strategy.

MR. PETER YIEN: That's right. And just for everyone, Tier 1 is the most important critical applications that we do have, yes.

MS. KATHLEEN MCCANDLESS: Okay. And at the time of the 2015 IT strategy, AOL was based on a 20-year-old technology platform.

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And you've described it as being the most important system. So perhaps you could just explain what AOL is.

MR. PETER YIEN: What do you mean by "explaining"? How, what level --

MS. KATHLEEN MCCANDLESS: Describe the

system.

MR. PETER YIEN: Okay. One (1) second.

(BRIEF PAUSE)

MR. PETER YIEN: I guess I'll keep it high level first. Autopac online is, essentially, a system that, as you know, we have brokers that sell the product. And it effectively is what we use to sell the product, register it and all of that.

MS. KATHLEEN MCCANDLESS: So is it located at broker offices?

MR. PETER YIEN: They have -- they have access to it. Yes.

MS. KATHLEEN MCCANDLESS: What --

MR. PETER YIEN: Oh, I do -- I do want to add -- there's also driver licensing as well, but, yeah.

MS. KATHLEEN MCCANDLESS: And so we see there's a budgeted amount combined with the CARS replacement, in that previous screen we were looking at Appendix 1, from PUB-MPI-1-30, of $50.5 million.

So can you explain what plans, if any, MPI has with respect to looking at a replacement for

AOL?

MR. PETER YIEN: Yeah. One second.

(BRIEF PAUSE)

MR. PETER YIEN: The numbers that you have there are projected money. I do want to refer back to my earlier comment about the value management process. These are old systems, and because they are old we have to explore -- first of all, have to understand the importance of replacing it. Quite honestly, we don't have a solution and we have to make sure that we look at all the avenues that we can pursue.

So these are estimated numbers. We have saved money in which we can start to explore what those options are. And then we'll have to build the related business cases that will either support or not support those numbers. But at this point, it's a -- it's a best guess, based on what we know.

MS. KATHLEEN MCCANDLESS: Okay, so with respect to something like AOL/CARS replacement at Line 33 or insertions of work, at Line 34, we see that there's no budgeted amount to be spent until 2018/'19 fiscal; yes?

MR. PETER YIEN: Correct.
MS. KATHLEEN MCCANDLESS: So I believe your evidence earlier, was that these projects are in -flight.
MR. PETER YIEN: It's in-flight in that it's part of management process. We're always cons -- constantly thinking about what we need to do. What are the options we need to think about? So, if -- if that's the definition of in-flight, which I believe it is, because you had asked me earlier about what is the value management process. It is a continuously rethinking and understanding what risk we are talking about. So, yeah. It -- it is flight in -- in that way.
MS. KATHLEEN MCCANDLESS: Okay. And so for those -- those projects which don't have any budget allocated until 2018/'19 fiscal will there be business cases and -- and using the new value management process for those projects?
MR. PETER YIEN: Yeah, absolutely. If we didn't, we'd be violing -- violating our own internal policies moving forward. So, absolutely there will be.
MS. KATHLEEN MCCANDLESS: Okay. Thank you. So now I'd like to move to some questions about

the Gartner CIO scorecard, which I touched on briefly earlier. And some of this does relate back to staffing because Gartner does comment on IT staffing.

So if we go to the Gartner CIO scorecard, which is attachment 'A'. Thank you, Diana. At Page 13 of the PDF, at the bottom of the page, there's a conclusion or an observation that:

From 320 to 324 FTEs, that MPI is staffing its IT at 10 percent higher than its peers. You see that?

MR. PETER YIEN: Yes, I do.

MS. KATHLEEN MCCANDLESS: Can you explain the increase in the number of FTEs?

MR. PETER YIEN: Okay. One second.

(BRIEF PAUSE)

MR. PETER YIEN: Okay. So, it's a combination of two (2) things. One (1) is we had the original moving from a prior year we had some vacancies that we had to fill.

And then the second point is, as we were doing the consultant conversions there's some filling that we need to do, just to make sure that there's appropriate transition. Ensure that they go through their learning curve, and then effectively take that on internally.

MS. KATHLEEN MCCANDLESS: When you say, "consultant conversions," are you referring to the moving "in house" of the 27 IT positions?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Thank you. As part of managing IT skill sets, has MPI performed an IT skills gap review, to determine what has today and what it needs to run it systems tomorrow?

MR. PETER YIEN: Yeah, it -- they do this ga -- gap's review from different angles. One is, of course, overall. I mentioned earlier, as part of the value management process, constantly when we -- when we looked at technology we have to understand who can support the technology. So -- so we do that on a continuous basis, and that -- that effectively also drives what we decide to do. That's -- that schism is not only internal, we also looked external.

So, for example, we have legacy system, and we find that we don't have the resource internally we then have to look outside. And then we look at our outside and there's a lack of resource internally, or the price tag associated with that consultant resource gets to be too high, then we have to revisit that.

The second in which we look at this is from a BTO perspective, when projects are being managed or business starts to ask for requirements. There are architectural changes that I mentioned earlier. We have to look at and assess, do we have the competent people to either upgrade a system or start to think about new ideas? And the other systems that we may have to pursue. So that would also involve potentially looking outside as to who has that expertise. And that then drives our contractor model.

And then finally, the third one is the projects. Each of the special projects requires special skills. Everything from project management to software, hardware, people, process change. And that's also evaluated before we embark on a business case to ensure that we have the right staffing levels.

One last point, with large projects. They come in and out all the time. Sometimes people leave an organization. So we actually have to manage the skill sets to ensure that we do deliver the projects on time and on a budget.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to Page 5 of Gartner. Thanks. So, the second bullet on the left-hand side of the page marked "key observations":

It's noted that MPI spends 63 percent of the IT budget on personnel versus 44 percent for its peers. And that 34 percent of MPI's IT staff is made up of contractors as compared to 17 percent for the peers; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain why MPI tends to have a higher make-up of contractors than its peers.

MR. PETER YIEN: Just one second.

(BRIEF PAUSE)

MR. PETER YIEN: I want to start by saying that MPI has an approach of making sure that we -- we -- on the contractor side, let me answer that first, why it's higher than the peers.

There's an ongoing contentional objective. And that's not to bring on contractors, and then very quickly let them go. So -- so as a result of that we -- we do have more -- more contractors.

Another reason is some of the project that we do run like PDR does require specialized expertise that we just simply don't have in-house, and so what the only way you could get that is that. But even more importantly, some of the areas are newer and they have the industry perspective that can get it done quicker than internally. So if we simply look at the cost or percentage, we would be missing the whole point of value management, which is we -- even if we had somebody internal. Either we can't get to the answer or it would just simply take us too long. So those -- those projects are driving a higher level of contractors.

As far as the IT the -- the overall IT budget on personnel as well versus the peers. It also is a little bit higher for number of reasons, but certainly one of them is the -- the need for us to continually get out of techno debt. We know that, in last year we -- we identified that there was a need, we -- we are continually doing that. So climbing that -- out of that does take a -- a portion of the staff to remain focused and vigilant on making sure that we maintain ourselves in terms of technical data, not fall further behind and -- and keep -- keep that up to date as well.

MS. KATHLEEN MCCANDLESS: Thank you. So, I think I understand your evidence. I just want to go back a bit. We -- we see that MPI has thirty-three (33) IT initiatives on the go.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And, you had mentioned earlier that from a corporate perspective that that number is manageable.

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Would MPI be better able to manage its use of contractors if it reduced the number of IT projects it had on the go, at a given time?

MR. PETER YIEN: That's a theoretical question. Currently we are able to manage our contractors. And not only that, in terms of the projects that we have. It's been shown that our budgets on -- budget on time. So if -- if I find that we've fallen behind on -- among our peers in terms of falling on budget, or deliverables, then I would say, we can't manage our contractors. But I don't see any evidence of that right now.

The other thing is, we do look at projects very seriously. We look at availability of people, constraints, what we're good at, and what we are not good at. We generally don't bite off more than what we can chew in this area. I mean, that's not to say we won't take risk. But -- but we are watching that closely, to make sure that we are accountable to be on-budget on -- on time.

MS. KATHLEEN MCCANDLESS: Okay. So I think I understand your evidence to be that MPI wouldn't consider limiting its number of IT projects take to get that contractor usage down further.

MR. PETER YIEN: No, I think if we did that, it would actually be the wrong thing to do. Everything that we do, needs to be aligned with the IT strategy that I was talking about earlier, the four (4) areas. And if we met percentage of IT contractors and completely missed our business objectives and -- including, keeping rates low for Manitobans. Then I think misses the point of our mandate.

And I go back to our mandate as keeping our rates affordable. And doing these -- doing these projects, does allow us to generate benefits that keeps these rates low. So no, I would -- I wouldn't. I think it's an important factor to consider. But it's not the only factor.

MS. KATHLEEN MCCANDLESS: If we look to the right-hand side of the page under implications and recommendations. The third paragraph down, Gartner state -- states:

"that staffing strategies should be

developed to reduce contractor dependence and numbers, internal staff retention and skills development should be a priority."

So can you explain how MPI might address this while at the same time, it is targeting to reduce its IT internal staff.

MR. PETER YIEN: Yeah, that's an excellent question. Let me start by saying, as a -- as a contractor myself, at night. There is clauses in there that precludes MPI from hiring a contractor that's got a non-compete. So we -- we cannot actively recruit the people that are working on projects with us. It does not preclude them from independently applying them through the website, though, so that absolutely possible. So, yeah, we do have a strategy to get to 27. But it's not a easy, slam-dunk kind of process. So it is difficult.

In terms of internal staff counts, keeping them low. Yes, it is -- it is something we want to do because if -- if we convert the external contractor in terms of going to an internal, the good news is that typically these folks are working on deferred-type projects. So the impact on their salary is not immediate, we amortize capital projects on a five-year basis. So effectively, when we convert them over and we capitalize it, we -- we split it over a five (5) year period. So we can take the pain off a little bit later.

There are good reasons why we would actually convert -- you asked about the strategy. Once we have the critical mass of work that is required to sustain a system, it makes perfect sense to bring that individual in-house to support the system moving forward. And in fact, it makes sense from another perspective, as a contractor it's possible to lose them a little easier if get pulled on another client, for example. So we understand those risk and we are continuously watching for opportunities to convert them over where it's possible.

My last point, though, that I would like to bring is, it is true that contractors cost a little bit more and sometimes contractors would not want to take a pay cut to necessarily join an organization, or they may simply enjoy the freedom to not work for an organization. And for example, take vacations whenever they like. So we -- we -- we are very cognizant of those risks, but at the end of the day there's also risk of having that contractor just unwilling to be converted. So -- so we're completely cognizant of all those things as part of our strategy.

MS. KATHLEEN MCCANDLESS: So just a question with respect to the proportion of staff made up of contractors versus peers.

Does MPI have any atten -- intention to try to target the level that its peers have, so the 17 percent?

MR. PETER YIEN: Yeah.

MS. KATHLEEN MCCANDLESS: Do you see on the left-hand side of the screen.

MR. PETER YIEN: Yes. I would say there is no intention for us to get to that number. Because that number is an industry average. And there is lots of unique circumstances of our peers. That doesn't mean though, that we're not comparing ourselves to other insurance companies. And other ones are more similar to us in their journey.

One (1) other important thing to consider, as I mentioned earlier, is the business strategy is not complete yet. Once that's complete, we would absolutely look forward to understand what's the optimal level of MPI consultants that we should be hiring and bring onto the projects. As I mentioned earlier, some of the projects that we move forward may depend on competencies that we don't have. That's out of our control. Where we have the opportunity to perhaps convert that individual earlier to an employee, we would certainly look at that opportunity.

Another area would be, you know, can we internally train another individual and maybe bridge some of that gap? We're doing that now.

And then a third thing is, can we minimize the time in which we use that expertise and try to do that knowledge transfer, and bring that in-house.

So we are looking at all those options. But to answer your question, are we targeting 17 percent specifically? No. If -- if by doing everything that we are doing, and it goes below sixteen (16) -- 17 percent, even better. But -- but we are focused on minimizing that contractor without impacting the delivery of the project, the overall cost of the project, and I think all those things need to be taken in consideration.

MS. KATHLEEN MCCANDLESS: Thank you. So MPI provided, in a response to an Information Request, an update -- a status update on implementation of Gartner's previous recommendations from earlier CIO scorecards?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if we go to PUB-MPI-1-51, this just addresses two (2) of the recommendations that were made by Gartner. Those are recommendations three point o-five (3.05) and three point -- point o-six (3.06).

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And the indication from the Corporation was that those are on hold at this time?

MR. PETER YIEN: Now, can you just go back? I just want to --

MS. KATHLEEN MCCANDLESS: You just go up to the --

MR. PETER YIEN: Oh, sorry. Yeah. Thank you.

MS. KATHLEEN MCCANDLESS: -- the preamble.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So there -- and I can take you, actually, to the application status, if you'd like. And Diana, that's at PUB-MPI-1-50 --

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: -- page 8.

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: We see that they're noted as on hold to review again in Q4 2017/'18?

MR. PETER YIEN: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And then three point o-six (3.06) is on hold to review as part of the budgeting process for Q3 2017 --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- '18?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: I won't be making you jump around much longer, Diana, so please bear with me. If we go back to the response to 1-51, at 'A', so that's on page 2.

So with respect to the status of those two (2) recommendations, the Corporation stated that it's currently working towards December 2017, as discussed, when -- when the Board of directors will be providing more direction about the IT strategy.

MR. PETER YIEN: M-hm. Yes.

MS. KATHLEEN MCCANDLESS: So these two (2) recommendations, and we can scroll up to the question just for your reference, Mr. Yien, so the anticipation, then, is that there will be some movement on these two (2) recommendations following the Board of directors' review of the IT strategy?

MR. PETER YIEN: Yes. In fact, there will absolutely -- absolutely be a -- a movement. Architecture itself, as I stated earlier, is dependent on the underlying business objectives. And once that's set, yes, it would -- it would definitely influence both three dot o-five (3.05) and three dot o-six (3.06), as referred to in the exhibit.

MS. KATHLEEN MCCANDLESS: Right. And these two (2) recommendations plan for the future state architecture to support MPI's goals of access and support for existing and new services, and three point o-six (3.06), perform a baseline of the current, and perform gap analyses as the architecture is implemented.

You would agree that these are good recommendations in that it's important to determine where the gaps are in looking at what needs to be implemented?

MR. PETER YIEN: Yeah. I would actually even go further. They are leading practices, and we absolutely should follow it.

MS. KATHLEEN MCCANDLESS: And ultimately, who will have responsibility for implementation of these recommendations?

MR. PETER YIEN: Let's describe "implementation" of these recommendations. What drives architecture is sometimes technical. What I mean by that is, it is absolutely the responsibility of the CIO to ensure that the risk of the organization is protected.

It certainly is the responsibility of the finance risk committee to ensure that they understand what risks are being taken on a technology level. So the -- our planning and technology committees oversees this -- these plans and challenges on the cost effectiveness of these plans before they get presented to the audit committee, and then further on to the board.

So the accountability rests with management, absolutely. So the CIO would be responsible for that. But equally important is the achievement of the business objectives. If -- there's no point to update -- to update architecture if it doesn't meet the business objectives. So the executive team responsible for the various lines of businesses needs to ensure that the underlying architecture is designed effectively and efficiently.

I mentioned earlier, yesterday, that

MPI believes that each line of business should stand on its own, and that means that whatever decisions we make on the business strategy, and then I said earlier, whatever applications we decide to update to run that business needs to be supported by the related architecture.

If the architecture says, Sorry, I can't give you an application in time, then we have a business problem. And so ultimately, I would say is once it comes to the applications by line of business, the line of business executives are responsible to hold the CIO accountable to deliver the architecture that would solve the business problem. But if I was to conclude, then, that all this stuff were all up to the new CEO that would be coming on board later -- and ultimately, the CEO should be responsible for all areas of business which then would include the underlying architecture.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you go back to page 8 of PUB-MPI-1-50. At the bottom of the page is recommendation three point o-seven (3.07), which is to:

"Continue to increase the span of EA, and I believe that's enterprise architecture's influence throughout

> the business areas by ensuring -- ensuring the governance processes as measured by process maturity and their importance is clearly -- clearly communicated such that they are not circumvented."

Is this an important recommendation for the Corporation in the context of what it wants to accomplish in its value management process?

MR. PETER YIEN: Absolutely. This is, in fact, a -- a very key ingredient for our value management process. The -- the revised management process provides an enhanced level of discussion. Governance cannot happen on its own without discussion, and I think this is important. I want to go back to earlier when I mentioned, we don't necessarily have business cases in all the time. We -- we have a good process. We -- we do talk to each other. We discuss with the challenges are.

As part of this governance process, that communication needs to be documented, and that's the refinement that I said earlier. It needs to be documented in one (1) place where it's easier to do a post-implementation review, for example. And so that communication, we need to ensure that we follow that.

I mentioned about the capitalization policy. That -- that communication is evidenced through our business case. So I do agree that it is important.

MS. KATHLEEN MCCANDLESS: And as far as who would be responsible for delivery on -- on that recommendation, would it be the same as your prior response with respect to recommendations three point o-five (3.05) and three point o-six (3.06)?

MR. PETER YIEN: I would add something else to that. Currently, value management reports to me, so compliance with that value management -- management process, including a review of the rigour that has been put into the business case, and then there's further aspects of -- I mentioned in my opening remarks that -- that the value manage -- management process would ensure that we know what the metrics that we'll be using to measure the benefits afterwards. And we fully understand, what are the qualitative aspects, the quantitative aspects, and to what extent the level of accuracy -- we can actually calculate some of these numbers.

That protector -- that particular governance piece actually is in my group. So in short, what I'm basically saying is the govern -- the revised value management process ensures that the executives are working a lot closer collaborative together to achieve the business objective.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can we go to page 10 of this document, and recommendation four point o-three (4.03), which is develop, document, and implement an information strategy.

And so, now that's in process. And would that be essentially the IT strategy and direction that the board of directors will be looking at going forward?

MR. PETER YIEN: Sorry, I'm not understanding the question. Can you just repeat in a different --

MS. KATHLEEN MCCANDLESS: Four point o-three (4.03)?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: The recommendation is to develop, document, and implement an information strategy?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: All right. And it's marked in proce -- in progress?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So that

-- would that be rolled in with the board of directors looking at the IT strategy?

MR. PETER YIEN: Yes, it would. An IT strategy would include the information strategy. Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions on IT. We're now moving to driver safety rating. Mr. Watchman will -- will be proceeding with those questions.

THE CHAIRPERSON: Thank you. Mr. Watchman...?

CROSS-EXAMINATION BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Okay. Thank you. Now, as has already been discussed, the request of this year is to increase driver premiums by approximately $17 1/2 million?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: And that represents an -- an approximate increase of 1.8 percent to overall premium revenues?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: Diana, if we could go to, actually, Exhibit MPI-11, page 4. So the proposal will be that ultimately, the increase would be applied to drivers who are in a demerit position?

MR. LUKE JOHNSTON: That's right. The only changes to the scale were on the demerit side.

MR. ROBERT WATCHMAN: Now, I believe in Mr. Yien's presentation yesterday, at slide 4, item 2, the second part, talking about the 2.7 percent rate increa -- increase request, the second point says:

"Driver premium increase to demerit drivers reduces the ask on all ratepayers."

I think more particularly, would that be all Basic ratepayers, or all vehicle ratepayers?

MR. LUKE JOHNSTON: The -- the bullet could be more clear. I -- I'll give you that.

We're saying that we could ask for the additional 1.8 percent on an overall basis to all ratepayers, or as we've done, we can ask for that $17 1/2 million from the demerit side of the scale, which we identified as having a bit of a gap between their indicated and required rate level.

MR. ROBERT WATCHMAN: Diana, could we go to PUB-MPI-2-36. And this was an Information Request to determine the effect of the change on driver premiums, and if they were not approved, the effect it would have on the rate increase on Basic.

And if we could scroll to the top of

the second page, my math would have said that one point eight (1.8) plus two point seven (2.7) is four point five (4.5), but it comes out at four point three (4.3). Could you explain the difference?

MR. LUKE JOHNSTON: Off the top of my head, the details, the difference? Like, I could take that as an undertaking. I guess when we flow through the -- the calculation and the -- in the rate model, including all other factors such as discounting, and expense loads, and everything, that it doesn't equate exactly to the -- the split of the two (2), but that's something I could undertake to get more detail on if -- if needed.

MR. ROBERT WATCHMAN: Thank you.

MR. MATTHEW GHIKAS: Do -- do we need that, Mr. Watchman, or is the answer sufficient?

MR. ROBERT WATCHMAN: Well, I just -- I think -- I think it would helpful to have that to have that information.

MR. MATTHEW GHIKAS: Okay. We can take that as an undertaking, then.

MR. ROBERT WATCHMAN: The undertaking is to provide an explanation as to why the indication in response to MPI -- PUB-MPI-2-36 is a 4.3 percent increase.

MR. LUKE JOHNSTON: Can you scroll up to the -- to the top, even higher, actually, to the question being asked.

Okay. We can do that. Thanks.

--- UNDERTAKING NO. 13: MPI to provide an explanation as to why the response to PUB-MPI-2-36 is a 4.3 percent increase

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Thank you. Diana, if we could go to Volume II revenue section figure REV-29.

So this table sets out the current driver premium, the proposed table in the change, which indicates the $17 1/2 million. So driver premium would increase from just over $52 million to 69, or almost $70 million; right?

MR. LUKE JOHNSTON: That's correct, based on the -- the forecasted driver movement and the new proposed rates.

MR. ROBERT WATCHMAN: So the proposal provides for an increase in premium -- driver premiums of over 33 percent?

MR. LUKE JOHNSTON: Subject to check, six (6) -- sixty-nine point nine (69.9) divided by fifty-two point four (52.4), I would accept that it's close to the number that you've provided.

MR. ROBERT WATCHMAN: If we could scroll back to page 22 to REV-27. And the proposal is to have the increase applied only to drivers in the negative or in the dem -- demerit position on the driver safety rating scale?

MR. LUKE JOHNSTON: That's true.

MR. ROBERT WATCHMAN: And looking at this table, those individuals would represent from 2016/'17 actual, 8.3 percent of all drivers, increasing to about 8.7 of all drivers?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: So it -- it's a 33 percent overall increase to be applied to less than 9 percent of the drivers?

MR. LUKE JOHNSTON: Well, I wouldn't characterize it that way. So the overall increase in rates, premium rates, this ref -- that this reflects is 1 -- 1.8 percent overall. These drivers would also have vehicle policies. And when we did our proposal on the -- the rates for DSR, we included both their vehicle -- expected vehicle and driver premium in that analysis, along with what their expected costs.

So the increase is really the combined increase of their vehicle and -- and driver premiums together. So, you know, if -- if that's helpful.

The other piece is that, again, it's -- if anybody that has convictions or at-fault claims would fall down the DSR scale. If they are paying -- say they're at zero, and they're paying forty-five dollars ($45) today, and they fall down the scale enough to pay four hundred and fifty dollars ($450). I wouldn't characterize that as a 1000 percent rate increase, even though the math might appear that way.

MR. ROBERT WATCHMAN: Now, from your evidence yesterday, and I believe in the -- some of the responses, this increase, or its allocation, it -- it hasn't been determined in accordance with actuarial practices?

MR. LUKE JOHNSTON: Yeah, that's -- it's a point I should expand on. So, for -- I -- I'm sure everyone in the room is aware how of rates are set. At MPI, there's a registered owner who registers the vehicles. They have a certain DSR level. They -- probably in your household, if you have more than one (1) person, you'd prefer the -- the driver with the best DSR level to ensure all the cars get the best discount. And then the other occupants of the house, sometimes younger kids, get to drive mom or dad's car with a 33 percent discount in pay, forty-five dollars ($45) in premium.

DSR addresses some of that discrepancy by trying to move more of the premium dollars onto the license, particularly for demerit drivers, or the -- or the highest risk drivers. The amount to transfer to the driver side is a -- is a policy decision, as -- as you mentioned.

Right now the rate structure classification system that I have for setting actuarial accepted practice rates doesn't allow me to, you know, ask the customer when they come in, Tell me all the drivers in the house. Tell me what their DSR levels are. Let's create a different rate for every vehicle in the house. Our program is not set up to rate like that right now. Maybe one day it will be, but today this is what -- what I have to use.

And -- and again, the -- the AAP -- when we say it's not AAP, that's true, but it's not that the selected premiums aren't based on statistical indicators. But I -- we're not saying that they follow actuarial accepted practice.

MR. ROBERT WATCHMAN: Thank you.

Diana, if we scroll to the next page, page 23. Okay. And in the top portion we have the proposed changes to premiums. But I -- I just want to go, scroll down to the bottom half of the page to talk about the objectives.

So there were three (3) identified objectives. The first to achieve a revenue increase of approximately 1.8 percent from driver premiums.

The second to apply the driver premium increases to the DSR levels with the largest negative discrepancies between premiums paid per driver -- vehicle and driver premiums and claims costs per driver.

The third objective to apply the driver premium increases such that no driver will receive an increase in their 2018/2019 driver premium relative to -- relative to what they paid 2017/2018 if they have an incident for a year driving for 2017/2018.

I just wanted to go through those objectives one (1) at a time. So if we could just, Diana, scroll to the top of the next page, and this deals with the driver premiums, the 1.8 percent increase. And basically, as I read this portion, it tells us that driver premiums -- or base driver premium hasn't changed in twenty (20) years.

And it was forty-five dollars ($45) set in '97. And if we kept pace with inflation or consumer price index, that would equate to sixty-five dollars ($65) today, and therefore a twenty dollar ($20) increase would equate to $18 million. So this is the rationalization for identifying premium -- driver premium as the source of revenue increase and the amount?

MR. LUKE JOHNSTON: Okay. Maybe I'll -- I'll step back. So going -- we don't need to go to the presentation, but as you recall we -- our initial rate indication was a 7.7 percent rate increase. So that was seen as an unacceptable rate increase. So we went back and looked at ways that we could lower that rate indication credi -- credibly. So you've seen stretch targets and -- and other things.

One (1) of the options that came to the table was that -- was driver premiums. And the way I would explain this to management and the Board was as you -- as you see here. Driver premiums haven't changed since 1997, may -- the base rate anyways. Maybe it's time that we increase them, at least to recognize inflation. That would still be a premium increase, as you noted, but they would be isolated to drivers.

So that logic's obviously understood. I think it -- everyone understands that inflation -- if we just had been applying inflation to this number it would've risen from forty-five (45) to sixty-five (65). So with that information the next question was how to -- if we want to do this, how do we apply the increase?

And we believe that rather than just acri -- applying across-the-board increase, particularly to the merit side, that we'd be better served by focusing on the highest risk drivers, not only to provide a better match to claims costs and premiums but also to potentially and incent -- improve driving behaviour, which could give us some, perhaps, additional favourable results in our -- in our claims forecast.

MR. ROBERT WATCHMAN: Okay. So just sticking with the objective one (1) for the moment, the identification of driver premium as a source of increased revenue and the amount that could be applied had nothing to do with driver experience or driving behaviour?

MR. LUKE JOHNSTON: Can you -- can you repeat that just to make sure I understand?

MR. ROBERT WATCHMAN: What I'm saying

is -- is that the allocation -- the application of it comes under objective two (2), but under objective one (1), identifying driver premium as a potential source of increased revenue wasn't the -- it was inflation. And the amount was based upon the increase in the value of the premium over the twenty (20) years. So it wasn't based on -- there wasn't a concern at -- for -- under objective one (1) as to driver safety?

MR. LUKE JOHNSTON: I -- I see what you're saying. So I -- I would view all the objectives in conjunction with each other. One (1) objective would be is -- is there a rationale for driver premiums to increase in general.

And then that wouldn't be looked at in isolation, but as -- as you said, with the -- with the other objectives. So this is to give the Board and our internal decision-makers an idea of what just an inflationary increase to this amount would've been over this period in terms of what might be reasonable.

MR. PETER YIEN: Yeah. If -- if I may, at this -- for -- for perspective is important. The Board wanted to make sure that whatever we do to driver premiums has to be fair, it incentivizes the right behaviour. So this is not the reason what you see alone that caused the increase. This is putting it in perspective to say, Okay. Well, if we increase that is there -- does it make any sense at all. It's a -- it's almost -- I call it a reasonability check to say, Okay. If this increased over the years did -- would it make sense.

The other two (2) factors are extremely important. When we really read through it, it sounds like, Okay. Well, we're just trying to find a way to increase premiums. But ultimately I think the net positive effect is the driver has control over this. And, in fact, if drivers remain safe we don't even want this premium, because ultimately what is going to happen in our business is if people are driving safer it's going to reduce claims incurred. It's amazing result.

So when I really think about this it's -- it's kind of a little bit of theory here that talks about, Oh, yeah, we're going after some net -- net increase of some sort here. And we -- you talked about the 1.8 percent. But, ultimately, what are we incentivizing? And so it's the re -- really the combination of the three (3) that gets to the overall objectives to say it is -- it is -- is it -- is it a okay thing to do? Is it the right thing to do?

And then the last piece is, does it

create unfairness? And what we're saying here is if the driver is driving similarly, like, before and accident free, they shouldn't pay more. And that's completely under the control of the driver. So I just want to put that in perspective, the design concept that it was part of that.

I want to go back to one (1) more, and we talked about stretch target as well. You know, when we had to think about -- bring the rate going from 7.7 percent down to two-point-seven (2.7), it was not a easy process. There were many ideas that were brought to the table. We reprioritized it and thought this was one (1) where it gave us the best net impact, which is ultimately it causes the driver behaviour at the end. So I'll just leave it at that.

MR. ROBERT WATCHMAN: Now, if we could just scroll down the page, Diana, to objective two (2). Sorry, if we could just -- sorry. Just scroll back to the bottom of the previous page, and it gives a description of the graphic that we're going to come to.

And so on the next page we'll come to the graphic, which -- this is the explanation for how you arrived at the per driver cost versus per driver premium, both current and proposed. And it includes both -- and on the cost side non-comprehensive and comprehensive claims based upon frequency and severity at DSR levels; correct?

MR. LUKE JOHNSTON: That's right. Yeah.

MR. ROBERT WATCHMAN: If we could just look at the graphic on the next page then. And now, the objective here is to address the largest -- what are referred to as negative discrepancies. Could you just explain that to us?

MR. LUKE JOHNSTON: Yes, I can. So what the graph shows here, the -- the blue and red line on the left side, or essentially the red line is covering the -- the blue line. So, like, based on the current scale, that is what drivers are paying for their combined vehicle and driver premium.

So you see a -- a plus fifteen (15), the -- the drivers are very safe there, but they often insure the vehicles in the house, so they pay more premium and there's a -- there's a gap there. We're not proposing any changes to the driver premium on the merit side. So the lines are on top of each other.

On the right side of the table the blue line shows our current DSR scale. So that blue line represents what we'd expect these drivers to pay for their vehicle -- combined vehicle and driver premium by DSR level. So that's the blue line. The green line is their actual expected costs.

And so as you -- you touched on in the previous paragraph, the way we look -- we determine their cost was to look at -- assign their -- their claims costs based on fault and then add a -- a load for comprehensive claims just to give us a estimate of the cost per driver. And you can see from the green line that there's -- DSR really by definition says that risk goes up as you fall down the DSR scale, and that's what the green line is showing.

The gap between the blue line and that green line is what we're calling a negative discrepancy, suggesting -- and we're suggesting that since a lot of the drivers on the demerit side don't actually ensure their vehicles, the best way to address the discrepancy is through increased driver premium. And that directly impacts those drivers and hopefully incents better behaviour because they are now accountable to -- to paying a larger portion of the premium.

MR. ROBERT WATCHMAN: So indicate -- so drivers at the negative end of the demerit scale don't register their cars if...

MR. LUKE JOHNSTON: No, I didn't say that they all don't. But, for example, if you go to the top of the DSR scale, say the fi -- plus fifteen (15), you'll see that there's actually -- there's more drivers -- sorry. There's more cars registered than there are drivers with the incentive to get the best discount. As you go to the demerit side of the scale, as you fall down the scale less and less people will be the registered owner of that vehicle because they have zero percent discount.

You -- again, if -- if it was my house and I was the demerit driver I wouldn't want to register the car if I had -- you know, if my spouse was 33 percent. That would be a no-brainer. You would do it right? So they do -- they sometimes register them, but a lot lower frequency than the merit, say.

MR. ROBERT WATCHMAN: Now, just in terms of negative discrepancy, in terms of current and proposed it actually begins at about the plus seven (7) level. That's where the crossover is?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: So these drivers zero through six (6) are in negative discrepancy, if I can describe that way?

MR. LUKE JOHNSTON: That's -- that's true. There is a gap. Yes.

MR. ROBERT WATCHMAN: So and -- but the proposal is not to address that issue?

MR. LUKE JOHNSTON: The proposal was really to focus on the demerit side of the scale. I -- I know -- I know what you're saying. There is a kind of a crossover point, which I'll -- which continues really on the op -- on the reverse side where the plus fifteen (15) drivers are. It appears like they would pay too much on an overall basis.

However, again, this is a policy-based decision. The -- the maximum premium itself is being put forward as policy-based, but based on statistical indicators the maximum discount percentage selection of the scale for -- that goes up to 33 percent, that is not actuarially-based. DSR is largely a policy-based decision on what should be the -- the largest allowable swings that a driver would experience between the maximum and the minimum rate ask.

So the 33 percent is seen as the most you could have your rate reduced, even though there might be justification that it could be forty (40) or -- or whatever. There's a selected number. In a similar way, we are putting a policy-based recommendation, again tied to the statistics, that drivers on the demerit side of the scale should pay up to three thousand dollars ($3,000).

MR. ROBERT WATCHMAN: Diana, if we could go to PUB/MPI-2-4. And scroll down to -- in -- item B we asked for an interpretive narrative as to the indicated DSR driving premiums relative to the proposed. And if we scroll down to -- sorry, stop at 'A'. I should have started at 'A'.

The indication here is, is that this REV-30, or the data supporting it, is the main supporting analysis for the proposed changes?

MR. LUKE JOHNSTON: That's correct. There's no -- there's no accepted actuarial practice document, for example, calculating the indicated DSR rate. Yeah.

MR. ROBERT WATCHMAN: And I think if we scroll down to the response to 'B' we'll -- we'll find that.

THE CHAIRPERSON: I'm sorry, we have -- we have a panel member who is -- who will be out for about a minute. We can continue. We have a transcript he can read. Does anybody have a problem? No, so...

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: And so in the responses it provides that the proposed 2018 driver premiums are directionally supported by statistical information, but are not best on actuarial indicators. Yesterday we spoke about statistically driven, as opposed to statistically directional.

Can you explain? Is --is there a distinction between the two (2)?

MR. LUKE JOHNSTON: The -- distinction. The D -- the DSR -- the data that we're discussing here, is statistically driven, statistically directional. Really, all I'm saying here is, is that the decision on how -- as -- as you pointed out on the previous graph, the decision on how to apply the increases on the driver premium were made with guidance as to the statistical information, but not to the level of detail and requirements of actuarial standards of practice. That's really all we're saying.

So there is strong act -- actuarial - type indicators or statistical indicators to support the change and that's the information that we provided. But we're not -- we're not -- I'm not telling you that this is -- follows accepted actuarial practice in the calculation of those rates.

MR. ROBERT WATCHMAN: Mr. Chairman, I was going to go to another exhibit. That might take a while, so I was wondering if this might be the appropriate time.

THE CHAIRPERSON: Yeah, that's fine. We'll -- we'll till one o'clock. Thank you.

--- Upon recessing at 11:58 a.m.
--- Upon resuming at 1:06 p.m.

THE CHAIRPERSON: Good afternoon, Mr. Ghikas. I understand you have some exhibits?

MR. MATTHEW GHIKAS: Yes, Mr. Chairman. Just two (2) right now. The -- the first one was filed electronically. It's the presentation of Ward Keith that will be delivered, I guess, next Thursday -- no sorry, it's tomorrow, that would be tomorrow. Let's how my week is going.

THE CHAIRPERSON: It's a Vancouver -- it's a Vancouver next Thursday.

MR. MATTHEW GHIKAS: It's Vancouver time, yeah, as I'm two (2) hours off -- two (2) weeks off.

And that would be MPI Exhibit 12.

--- EXHIBIT NO. MPI-12: Presentation of Ward Keith.

MR. MATTHEW GHIKAS: And MPI Exhibit 13 is the response to PUB-MPI PreAsk 4, please disclose the assumed routine management regulatory actions, where applicable. And we have also filed that electronically, and copies of both of these things are -- are, or have already been, circulated. Thank you. That's it for me.

--- EXHIBIT NO. MPI-13: Response to PUB-MPI PreAsk 4

THE CHAIRPERSON: Thank you, Mr. Ghikas. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Yes, I referred to a couple of documents this morning that I would like to enter as exhibits on the record for the PUB.

So the first would be the physical damage re-engineering program charter dated May 20, 2014 from the 2015 General Rate Application, and that will be entered as PUB Exhibit Number 14.

--- EXHIBIT NO. PUB-14: The physical damage re-engineering program charter dated May 20, 2014 from the 2015 General Rate Application

MS. KATHLEEN MCCANDLESS: And the other exhibit will be Information Request PUB-MPI-1-75 dated September 5, 2014 from the 2015 General Rate Application, and that will be PUB Exhibit Number 15.

--- EXHIBIT NO. PUB-15: Information Request PUB-MPI-1-75 dated September 5, 2014 from the 2015 General Rate Application

MS. KATHLEEN MCCANDLESS: Thank you.

THE CHAIRPERSON: Mr. Watchman...?

MR. ROBERT WATCHMAN: Thank you.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Diana, I think we were at PUB-MPI-2-4 and in answer to part (b), Mr. Johnston, we were talking about your explanation of directionally supported by statistical information.

Now, does that mean that an upward DSR scale change is proposed whenever the analysis so indicated?

MR. LUKE JOHNSTON: Can you -- yeah, would you mind repeating that again. Thanks.

MR. ROBERT WATCHMAN: So, the question is, is whether or not the -- in terms of what you describe as directionally supported, does that mean that the statistical information supported an upward DSR scale change when the an -- when the analysis indicated.

MR. LUKE JOHNSTON: There is no attempt here to say in the analysis that this should be the exact number per the graphic you looked at. Clearly, if that graph is available, we can bring it back up, but clearly the -- there is a cost per unit line and we're not attempting to match it. But we are attempting to move closer to it with the incentive here to have the demerit drivers contribute more of a fair share to the total premium pool.

This was really the objective. But there was no, say, indicated number coming out of the analysis.

MR. ROBERT WATCHMAN: And if we could go to MPI -- PUB-MPI-2-3. And the question here related to factors that were considered during the original hearing on the driver safety rating program.

And if you just scroll down a bit, consideration was given to public acceptance access, affordability, and number of drivers without a license.

And if we could just scroll down to the -- to the top of the next page. In terms of public acceptance, response that -- was that we -- we anticipate strong overall public support for these concepts.

First of all, is there any evidence to support that?

MR. LUKE JOHNSTON: I may have to defer to Mr. Keith on this topic, but I can tell you that my understanding is that customers are supportive of higher risk drivers paying their fair share of the premium -- of the overall premium that Manitoba Public Insurance charges. So, that's something I can confirm if we have research on that. But that's my understanding of what we hear from the public and -- and Mr. Keith would be able to provide much better evidence on -- on those details.

MR. ROBERT WATCHMAN: And the response goes on to provide that a driver's premium -- this is the concept that you believe the public will support that a driver's premium should accurately reflect the cost of that driver; in other words, a user pays pricing approach.

Now, do you believe that the proposed DSR change accomplishes those objectives?

MR. LUKE JOHNSTON: What it does is it more accurately reflects the cost of that driver. You can see the gap is fairly large. The -- we moved the driver premium of proposed $17 1/2 million for that portion of the scale. We are moving in the right direction, but we -- we're not suggesting that it's a completely accurate reflection at this time, but mov -- directionally improving.

MR. ROBERT WATCHMAN: Diana, if -- if I could ask you to go to PUB-MPI-1.41 -- 1-4, Appendix 1.

So now we understand that this is the supporting statistical information for that chart that we looked at REV-30.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And so if we look across the column in -- the first column is the DSR level. The next is the number of drivers within that level. The third is the vehicle premium in 2018 policy year.

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: Then the current

DSR scale, the proposed DSR scale. Then the combined vehicle and driver premium both before -- or sorry, current and on the basis as proposed. And then we get into an analysis of claim frequency.

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And expected collision and personal injury cost?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And then separated out is the frequency with respect to comprehensive claims?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: So comprehensive claims are those for which things like vandalism, thefts, things for which there isn't an at-fault driver?

MR. LUKE JOHNSTON: Yeah, they're -- they're not from an accident, they're from -- yeah, other perils, yeah.

MR. ROBERT WATCHMAN: And so then there's a determination as to the per driver comprehensive cost, and it's -- so the costs are added together.

And when we look at the -- we'll come back to the graphic in -- in a minute, but in terms of determining the difference between claims cost per driver and premiums, the -- the green line is basically the last column and the red column is -- or the red line on the graph is the proposed premiums -- driver and vehicle premiums?

MR. LUKE JOHNSTON: Red is the proposed and, yes, the blue is the current and the green is the, like you said, the last column, the costs, yes.

MR. ROBERT WATCHMAN: Okay, if -- if we could perhaps call that REV-30. So I take it that you're -- you are not suggesting that the analysis didn't suggest that no DSR changes were indicated on the merit side.

MR. LUKE JOHNSTON: I'm not suggesting that. That's just by visual inspection. You can see that there are -- there are gaps in the graph, yes.

MR. ROBERT WATCHMAN: So when we look at the -- the right of that -- the far right of that graph, at the minus 10 -- 20 level, it's indicating that the current premium is $3553, which falls short of an average claims cost of $4245 which would indicate a need to increase the driver premium at that level?

MR. LUKE JOHNSTON: There's -- as you

go into the demerit levels on to the negative side, there's thankfully less drivers that live on that negative 20 area.

And just -- just so everybody understands what it takes to be negative 20 on the scale. It's about two points down the scale for a minor conviction, minus 5 for an at-fault collision. I believe it's minus 10 for a -- a DUI. So it -- you've got to do a lot of things to get down the bottom of that scale. But thank -- thankfully, there's not a lot of drivers down there.

So, the credibility is -- is less in the data, but directionally you can see the path going up to the number you quoted, a little bit over $4000.

MR. ROBERT WATCHMAN: Okay, so -- so based on that information, though, even if we're looking at the current, we have drivers at the minus 17 to minus 19 levels where there isn't a negative discrepancy.

MR. LUKE JOHNSTON: Yes, and that really stems to my -- my last point. There is less drivers in that section of the curve. And we have to make a selection. We don't -- you can see the cur -- the line sometime goes up and down and we're not going to charge less for minus 13 than we charge for minus

12, for example.

We're using the line -- the indicated claims line as a -- as a basically a way to fit a driver premium curve that is reasonable based on the data that we have.

MR. ROBERT WATCHMAN: So at that minus 17 to 19 range, you can't say that it's directionally supported by the statistics?

MR. LUKE JOHNSTON: So I think your question is because there's a bit of a dip there that for a minus 18 driver I can't support that that's the exact cost that -- that we need to collect. I think that's what you're saying.

The -- some of my comments about credibility are that there are less and less drivers down here. There's going to be variability in the results. Again, we're thinking about the drivers that are going to be driving at minus 18 to minus 20 are very high-risk drivers. We're not intended to match the -- the green line, just -- we're -- we're trying to create, again, a policy-based line where you pay more based on the risk you present.

And you can see through the red line there we're basically pick -- asking for a fairly linear line up to and assumed maximum of $3000.

MR. ROBERT WATCHMAN: Doing so, we run into this situation where there are more drivers at that end who are now paying more in premiums than on a per driver basis than cost.

So, currently it's -- we -- we find that happening minus 17 through minus 19; with the proposed changed it'll happen from drivers from about minus 12 or minus 13 through to minus 19.

MR. LUKE JOHNSTON: Sorry, I agree with you. It's not intended to match perfectly the -- the plus side of the scale doesn't match either. We could, in theory, increase the driver -- the vehicle discounts for those drivers; that's not the proposal we would put forward. We're trying to get our premium ask from the highest risk drivers based on the graph you have here with the -- we believe a well supported based on the -- the green line increased to the demerit side of the scale.

There's no -- again, guided by the green line that you see. And it's a lot more stable on the merit side where there's a lot of drivers and then it becomes more sporadic at -- at the demerit side. There is no attempt here to match perfectly every single level the dollar amount. Next year that line will be up and -- up and down, based on the variability of the claims for minus 16 type drivers.

This isn't -- this is an example for this application. But again, we're just picking -- we're basically fitting a line through that -- through that green portion.

MR. ROBERT WATCHMAN: So, the -- t he point being, that it's not actuarially sound and in a number of instances it's not statistically driven.

MR. LUKE JOHNSTON: I would -- looking at this graph I would say it's very statistically driven. So, I'm struggling -- if your point is just the green line doesn't match the red line, then I agree with you, but there is definitely an upward trend in the green line and we're basically directionally moving our driver premium rates to have demerit drivers pay more of their fair share to that green.

MR. ROBERT WATCHMAN: Okay. But if we go back to that public support that the IR response spoke of, for these people beyond minus 13, other than minus 12, the proposal is not accurately reflecting the cost of that driver.

MR. LUKE JOHNSTON: I think -- I think I would just reiterate my previous comments. We're not intending to match the green line exactly. This is just directionally supported to a maximum DSR level of about -- sorry, of driver premium about $3000. It's about four (4) if you include the vehicle premiums that we expect.

That's all I can really say on that. I don't know what else to add.

MR. ROBERT WATCHMAN: Now, with respect to the inclusion of comprehensive costs.

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And as we -- as we've talked about, there isn't -- those are instances where there's not an at-fault driver; correct?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: And so is it fair to include that cost in this analysis?

MR. LUKE JOHNSTON: I'll -- I'll tell you why we included it. So if we take customer premiums as we've done on the -- on the graphic here and we exclude coverages like comprehensive, then the cost per -- per driver is going to look lower than the premiums we charge. In other words, if we have a billion dollars of claims and comprehensive claims are a hundred million of that number, it's gonna look like the claims line can be $100 million less than the premium line.

So we -- what we've done here is showed the -- the claims' line represents the amount of claims that we have relative to the -- the premium that's needed to cover those claims. So, it's com -- comprehensive -- when we first did this graph, I -- we did the thing you're suggesting. But then, of course, the costs, the whole cost line shifted down because of the lack of -- of comprehensive claims included in the data, which makes it look like you're charging too much premium, right.

So you have to include -- in order to compare the overall premiums, you have to include all the coverages if that -- if that makes sense.

MR. ROBERT WATCHMAN: So if comprehensive claims were not included, the green line would be closer to the red; certainly on the negative side of the scale?

MR. LUKE JOHNSTON: If comprehensive claims were not included the entire green line would shift down by the amount of comprehensive claims, dollar per unit.

MR. ROBERT WATCHMAN: And -- and since the frequency and severity is higher in the negative end, it would be more favourable to those who are in the negative side of the scale.

MR. LUKE JOHNSTON: The frequency, yes. Let me just check.

MR. ROBERT WATCHMAN: If we go -- if we go -- if we go back to that Appendix 1.

MR. LUKE JOHNSTON: That's fine. This might seem counter intuitive, but the -- the comprehensive claims frequency is also higher, based on your DSR level. So, if you look at one -- four (4) columns from the right, is says 'three-year comprehensive frequency". So you can see that plus 15 drivers have five (5) comprehensive claims per hundred, that's 5.29, and then down at the bottom of the scale, you see negative DSR 15 to minus 20, about double that, about ten (10).

So our DSR are actually -- this is predictive of comprehensive claims as well. So that's another thing that we had to consider. We were -- we say, Well, how do we make this comparison fair? One way would be to just at a flat, comprehensive claims load for every single driver regardless of where they are in the scale. But when we checked the experience, it wasn't legit -- legitimate to do that. Frequencies about double on the bottom of the scale compared to the top.

MR. ROBERT WATCHMAN: Does the

Corporation have any understanding as to why that is?

MR. LUKE JOHNSTON: There's -- there's a certain -- behavioural or attitude impact, I suspect I'm speculating. But, you know, if you're going to have D -- you know, DUIs and a lot of accidents and things like that, maybe there are certain behaviours that spill over into how you protect your vehicle or things like that. That's pure speculation.

But, when we did driver safety rating analysis that -- that came to the Board, we found out some interesting things; for example, not wearing a seatbelt is predictive of how many accidents your going to have, which some people would say, What has tha -- what does that have to do with anything? But, the people that got seatbelt convictions were shown conclusively to have a higher accident rate than those that -- that don't with all -- all other things equal.

So to me that's a -- a, kind of an attitude. And maybe that spills over into the comprehensive side, as well, but we don't -- we haven't done analysis to prove that.

MR. ROBERT WATCHMAN: And just, in terms of a person being assigned demerits. I think the phrase used is collision or conviction.

MR. LUKE JOHNSTON: Yeah -- yeah.

Collision, minor conviction/major conviction.

MR. ROBERT WATCHMAN: So we have collision where the drivers is at fault and received demerits. We also have convictions whether they're Highway Traffic Act or possibly criminal and the driver receives demerits.

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: So -- but in respect of those conviction demerits, there's not necessarily a claims cost associated with the assignment of those demerits.

MR. LUKE JOHNSTON: There is not a direct -- as a collision obviously has a direct cost. But that -- the -- going back again to the DSR application, the conviction experience was seen to be just as strong of a predictor of future at-fault claims as a -- as accidents.

And I suspect if you are someone who's speeding or running red lights or not wearing seatbelts, it's only a matter of time 'till you kind of join the at-fault accident club there; right? Like it -- it -- those behaviours are going to lead to accidents. So since DSR has been put in, and what we're hoping for, again, this -- this time around with -- with increases to the bottom, is that customers will get that message, that those types of behaviours have financial consequences and -- and hopefully they'll do as they did in the first iteration of DSR and have less of them. And they've -- the conviction behaviour has improved dramatically since DSR is implemented. And the at-fault claims experienced at the bottom of the scale has also improved dramatically.

MR. ROBERT WATCHMAN: Okay. Now, just staying with that appendix. If we if we just look at the group -- at the DSR level 02 plus 6. And we look at the number of drivers, there's a significant number of drivers. I think it's -- it's approximately one-third (1/3) of all drivers are in that category.

MR. LUKE JOHNSTON: Subject to check, that sounds reasonable.

MR. ROBERT WATCHMAN: And when we look at the minus 1 to minus 12 scale, this is far fewer drivers in those categories.

MR. LUKE JOHNSTON: Can you repeat what you just said. Minus 1 to...

MR. ROBERT WATCHMAN: Minus 1 to minus 12.

MR. LUKE JOHNSTON: To minus 12, okay. I agree there's less -- definitely most of our drivers behave very well. You see -- look at the top of scale 291,000 people at plus 15, that's -- that's great. So that -- most of our drivers are on the merit side. Yes.

MR. ROBERT WATCHMAN: But, both of those groups 0 to plus 6, and minus 1 to minus 12, are in what you've referred to as a negative discrepancy.

MR. LUKE JOHNSTON: Looking purely at that chart, yes.

MR. ROBERT WATCHMAN: So if we go back to REV-30, please, Diana. So -- but this is based upon a per-driver cost in each category, not the dollar volume of the entire driver safety level.

MR. LUKE JOHNSTON: Correct, it's a -- on a per-driver basis, yes.

MR. ROBERT WATCHMAN: So -- but if we -- if we did them -- the calculation and determined what the total to -- dollar value or dollar difference by level would be in terms of negative discrepancy, the negative discrepancy between 0 to plus 6 would be far greater than the negative discrepancy from minus 1 to minus 12.

MR. LUKE JOHNSTON: I -- I -- I would agree, I don't need to calculate that. Just -- just by definition, there's a lot more drivers there, yes.

MR. ROBERT WATCHMAN: So that -- is -- is that not statistically directional?

MR. LUKE JOHNSTON: Again, the -- so we have an existing DSR scale in place. The question was how to -- if we want to increase driver premiums -- how should we do that? And the -- the policy decision was to apply that increase to demerit level drivers, guided by statistical information. The decision was to not put that increase on the merit level drivers. So that was -- that's the proposal that -- that we have front of the Board.

MR. ROBERT WATCHMAN: So based on that -- so based on -- on the understanding that this is a policy decision, you consider the proposed DSR scale to be just and reasonable?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And -- and, what's the basis for that?

MR. LUKE JOHNSTON: I -- when I look at this -- this graphic, I think that -- that the amounts we're proposing on the demerit side are just and reasonable, and contribute to the objectives that you've referenced in this -- in this question, again, they're not -- this isn't a accepted actuarial practice calculation. This is a policy decision, and that is also true of the current driver premiums on our scale. And in this instance, we have decided that our high-risk drivers, that we think are -- the premium increases are best served on that side of the scale with the objective of making demerit drivers pay a higher share of the cost.

And with this additional objective of hopefully reducing the claims experience, which you can see is upwards of eight (8) times as high relative to the top of the scale.

MR. ROBERT WATCHMAN: In prior rate applications, my understanding -- I shouldn't say rate applications, but applications involving the driver safety rating -- safety rating scale.

The Corporation had indicated that it would like about ten (10) years before making some meaningful analysis of that experience; is that fair to say?

MR. LUKE JOHNSTON: We have-- we have said that, yes.

MR. ROBERT WATCHMAN: So how many years of experience do you have now?

MR. LUKE JOHNSTON: I count, I guess seven (7).

MR. ROBERT WATCHMAN: And do you not

believe that you could use the -- the seven (7) years that you have to conduct a more meaningful analysis?

MR. LUKE JOHNSTON: Our comment on the ten (10) years, and it is still somewhat true today, is that the DSR experience was evolving, the drivers were continuing to make improvements at the bottom of the scale. The demerit, the percentage and demerit categories or the -- really the percentage at any level on the scale had not stabilized.

So, for that reason, we were hesitant to set rates on a scale that's been evolving to what -- what I'm assuming will eventually some sort of status quo position. So that was our -- that was our -- really our main rationale for -- for waiting.

The emergence of the 7.7 percent rate increase created some tough decisions that we had to make. And as we discussed earlier, driver premiums were -- in particular demerit driver premiums were one (1) of the areas where we thought we could get the needed revenue or preferably address high-risk behaviour issues and -- and lower claims. Either one helps our situation in regards to the -- the required rate increase.

MR. ROBERT WATCHMAN: Diana, if we can go to PUB-MPI-2-5. Thank you, just scroll down to the table there. Oh sorry, 2-5. Just on that table.

This goes to the third (3rd) objective that we reviewed this morning that the -- the changes were structured so that no demerit driver would face an increase this year, provided they had a -- an incident free year of driving.

But, we provided you with this table, which shows that somebody who goes into these categories would have over the time it takes them to get to a zero rating, a cumula -- a cumulative additional charge at the top end of seventeen hundred dollars ($1700) going down to two hundred and fifty (250). And you can confirm that that is accurate.

MR. LUKE JOHNSTON: Before I do that, so, just to be clear on our statement that we made. A driver with a clean year will not pay more than they paid in the previous year; not that the scale isn't increasing. So what I mean by that is, if you are at minus 10 on the scale and you have a good year, and you move to -- I can't remember the number, let's say, minus 6, you're not going to pay more when you moved up than you did last year.

But clearly, this -- we've increased the scale on the demerit side. So if you are at minus 20 now, the hypothetical -- you know, good driver that moves up the scale would, of course, pay more than the previous scale over that period. That's -- right? But as -- if they have a clean year, they will not pay more than they paid last year, as a result of the scale coming into effect.

MR. ROBERT WATCHMAN: Yeah. Diana, if we can go to Volume 2, of the revenue section, Page 23, and look at REV-28. Two (2) pages before that.

So this -- this is the scale that is being proposed in the... And when -- when we look at drivers in at least five (5) of these categories, the proposed rate represents a 100 percent increase in their driver premium.

MR. LUKE JOHNSTON: Are you -- are you just comparing propose to current at the same.

MR. ROBERT WATCHMAN: Yes. Yes.

MR. LUKE JOHNSTON: Okay. So there's only two (2) things that can happen when you're on the demerit side, you have a clean year. And so let's use the minus 10. I -- I can't recall off the top my head what the -- when you're on the demerit side of the scale, even if at minus 20, you're always five (5) years or less from getting to zero. So just -- hopefully there's not too many minus 20s in the room, that had to do this. But you -- you snapback -- we call it the snapback. So you're not stuck in this merit level forever if you change your behaviour, you snapback up quickly. So minus 20, I think you jump to minus 13 with a clean year, if you have another one you -- I think you jump to minus 7. So you move up quickly.

If you have an infraction, you obviously more down based on that -- that number. So minus 20 paying twenty five hundred dollars ($2500) this year, has a clean year jumps to the new s -- proposed scale, sixteen hundred dollars ($1600). Yes, that is higher than the old minus 13, but nine hundred dollars ($900) less than that person's current rate.

That's what we mean when we say -- so if you're at 12 and you're paying nine hundred (900) right now, you would -- say move to minus 7 or eight (8). And you'd be paying less than the nine hundred (900). So, it would be very disappointing to be paying nine hundred (900) today and then next -- you have a good year and next year you're paying nine hundred (900) again. You will -- will say, Well what was a point of the good year, I didn't have a premium reduction at all. That's all we're saying when we say, the rate will -- won't go up.

MR. ROBERT WATCHMAN: But in terms of

the assignment of the increase across the DSR levels. Again, this is a policy decision. This isn't statistically driven.

MR. LUKE JOHNSTON: That's a policy decision based on statistical information, but not intended to match those numbers exactly.

MR. ROBERT WATCHMAN: Diana, if we could go to -- back to PUB-MPI-2-4. Go to -- just scroll up a little more to see what the... Item (c) was a question directed to the Company -- to the Corporation's current capa -- capabilities to use more advanced analytical tools to estimate the indicated changes to the DSR premiums. And if we could scroll down to the answer.

Indication is is that driver premiums are currently determined on a policy basis, more advanced anal -- analytical tools are available to MPI, however, utilization of these tools would be part of a broader overall change to MPI's current vehicle and driver premium ratemaking methodologies.

At this time there are no plan changes to the ratemaking methodologies used by MPI.

MR. LUKE JOHNSTON: I see that.

MR. ROBERT WATCHMAN: Why?

MR. LUKE JOHNSTON: So again, I think

I -- right at the outset of this, I described our current classification system and the way that rates are set in Manitoba. And there's -- are other juris -- jurisdictions that do this, as well, but we have a registered owner-based system where the owner ensures the vehicles and they get that discount.

If, in the future we move to a system where in other jurisdictions are systems where you have to list the drivers on your policy, so. Mr. Yien could tell you that maybe if you add a sixteen (16) year-old driver to your policy, it goes up, you know, three thousand (3000), four thousand dollars ($4000); right?

Like, I have -- obviously have friends in other jurisdictions where that -- that happens. That's not the system we have right now. So that's not -- I can't set rates on that basis. So the driver premium side, I can help guide policy decisions with statistical information. And that's what we've done here.

Until such a time as we were to change the -- the system of insurance, it will be difficult to do the type of analysis you're describing where -- where everything is optimized on the driver and vehicle level. That's all we're really saying here.

And I'm not saying that MPI's never going to change our rate-making methodology, I'm just saying that at this time we don't -- we don't have plans to do that.

MR. ROBERT WATCHMAN: Wouldn't be possible to use some of these analytical tools without changing the methodology?

MR. LUKE JOHNSTON: Yeah. MPI has -- there's no issue with using analytical tools. Again, I'm just reiterating that how the decision was made both on the original DSR scale and the proposed change for the demerit drivers. It's not an -- an AAP accepted actual practice analysis at this time.

MR. ROBERT WATCHMAN: Okay. Aside from this, are -- are there any other practical barriers that the Board should be aware of?

MR. LUKE JOHNSTON: Aside from the -- the design of the rating system right now doesn't allow -- doesn't allow my -- my -- me or my team to look at a -- households of vehicles and adjust the vehicle rate for every driver in the household by DSR level. That would be, like, an optimization-type exercise that could be done.

And, you know, we did the original DSR analysis. We actually did that. We -- we pulled address data, and we assumed that that was the household, and we tried to figure what we would charge if we knew was in the house, but we don't have that capability to do that right now. So there -- I am limited by the structure of the -- the current classification system.

MR. ROBERT WATCHMAN: Now, the other issue in this area is the relative size of the revenue contribution from vehicle premiums versus driver premiums. And I -- I can take you there, but it -- for -- for the 2017/'18 forecast, it's approximately 5 percent driver premium, 95 percent vehicle premium.

MR. LUKE JOHNSTON: App -- approximately, let's say 5 to 10 percent driver premium if these go through -- these changes go through. Yeah.

MR. ROBERT WATCHMAN: Okay. And still -- and -- and -- but -- but again, but that's another determination that isn't statist -- statistically driven. It's a policy decision?

MR. LUKE JOHNSTON: The -- the percentage that we're asking on the -- to be charged on driver premium right now is a policy decision, yes.

MR. ROBERT WATCHMAN: And would these -- would there be analytical tools that would also help you to address the split in terms of determining it out on a experience-driven basis?

MR. LUKE JOHNSTON: Mayb -- maybe just to give you an example of, I think, where the line of questioning, here, let's say we do this optimization analysis, pure -- purely actuarial-based analysis, just based on the seven (7) years that we have, and it says the base driver licence premiums should be four hundred dollars ($400), right? Like, new drivers should pay four (4) -- maybe it says five hundred dollars ($500) or six hundred dollars ($600).

From a policy's perspective, we're -- we're not going to change the -- come to the PUB and ask to change the base driver's premium from forty-five dollars ($45) to five hundred (500). So that -- that's an example of the gap here, right? So the -- the statistical information is -- is intended to guide us closer to a fair distribution, or what drivers pay relative to their risk. But there is a gap there, and we're trying to move in the right direction, again, for the demerit drivers.

MR. ROBERT WATCHMAN: And I'm going to change topics now. I'm going to move on to ratemaking in accordance with the accepted actuarial principles. And Diana, if we could go to PUB-MPI-1-9.

MR. STEVE SCARFONE: Mr. Watchman,

sorry to interject. I just wanted -- before you move on to ratemaking, we just wanted to make clear for the Board that with respect to some of the questions that were put to Mr. Johnston on the driver safety rating, there is, in fact, the regulation, as the Board may be aware, that would govern some of the movement that occurs on the scale, including whether movement occurs for convictions.

And as Mr. Watchman pointed out, there's no direct correlation to claims. But of course, the Corporation has no choice but to move a driver when convicted of a Highway Traffic Act offence. We just wanted to make sure the Board was aware that that regulation is out there. Thank you.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Now in this Information Request, this sets out standards of practice, the best estimate present value of cashflows relating to the revenue at the indicated rate should equal the best estimate present value of cashflows relating to the corresponding claim costs and expense costs plus the present value of the provision for profit over a specified period of time.

So this is the standard of practice for

all actuaries in Canada; correct?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And you accept that this is the biding -- binding guidance for actuaries deriving indicated rates for insurance contract of property and casualty insurance who are doing their work in accordance with the accepted actuarial practice in Canada?

MR. LUKE JOHNSTON: Yes, I do.

MR. ROBERT WATCHMAN: Now when you referred to this on Monday, and -- and I appreciate that you were -- you weren't reading it word for word. But in your description, you -- you referred to best estimate present cash value flows relating to premiums.

The actual wording is, is "revenue." And so is this -- is this one of the areas where we have a difference of interpretation?

MR. LUKE JOHNSTON: Not in my opinion, no.

MR. ROBERT WATCHMAN: Do you agree that the return on investment on assets supporting Basic total equity is a revenue cash flow to Basic insurance operations?

MR. LUKE JOHNSTON: It's a revenue

cash flow to Basic operations, but it's not a revenue cash flow related to these policies in any way.

MR. ROBERT WATCHMAN: So that's where the distinction is?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So you can confirm, then, that the Corporation has not included the expected return of investment assets supporting Basic total equity as relevant cash flow in the determination of the Basic indicated rates?

MR. LUKE JOHNSTON: The -- to put it into maybe easier language, we are not using the investment income earned on the rate stabilization reserve to reduce Basic rates.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Okay. Diana, if we could scroll to the response on the next page. If you just -- sorry, hold it there.

Now, in the response to (a) is beginning -- this is actually the third sentence, reads, The 2018/'19 policies are priced using accepted actuarial practice on a break-even basis, which means that the present value of cash inflows related to these policies, e.g. premium service fees, equates to the cash flow -- to the cash outflows related to these policies, e.g. claims costs and expenses.

Now that -- does the definition of the AAP rate setting on an -- break-even basis come from any guidance that's provided from the Canadian Institute of Arc -- Actuaries?

MR. LUKE JOHNSTON: I would use the standards of practice, as per other actuaries, yes, if that's -- if that's what you're asking.

MR. ROBERT WATCHMAN: Well -- well, I guess what we're looking for is, Where is that defined?

MR. LUKE JOHNSTON: I think you just had the -- the standards of practice on -- I -- I don't know if it was in this question. But if you can show me where in that standards of practice that it says I should rebate the investment income earned on the rate stabilization reserve, then please -- please to show that to me. But I -- I don't read the standards of practice that -- that requires that.

MR. ROBERT WATCHMAN: Okay. So if we can go back -- roll back to the standard, please, Diana.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Okay. So the standard provides that the present value of cashflows relating to the revenue, and I believe you have agreed that the interest return on those assets would be revenue?

MR. LUKE JOHNSTON: Not related to these policies, that -- the -- right? Like, if -- in theory, if -- if what you're -- if I earned enough investment income on -- had a -- a gigantic RSR, we could just have free insurance, like, because the investment income would cancel out the entire rate. That -- that doesn't make any sense.

All -- we're saying here, take the claims costs and expenses, take the present value with considering investment income, and charge a rate to break even. And now we're talking about taking the present value of a profit, which would make -- basically sell these policies at a -- at a loss. Maybe in the private sector, where we have 10 or 20 percent profit and 225 percent MCT levels, maybe it makes sense to -- to calculate the present value in a different way. And other actuaries are free to do that.

We're -- we're doing a calculation for negative profit, here. It doe -- it -- it just doesn't make any sense to me.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: And maybe just -- just to add to that, since we're on the subject, and -- and right now, which won't always be the case, I understand that, the -- the entire rate stabilization reserve is basically extension transfers.

So in -- in the -- today's case, we can't even make the -- the case that Basic policyholders have provided the RSR for which the investment income is being generated on. So even from that perspective, I don't think it makes sense, so I -- yeah.

MR. ROBERT WATCHMAN: Just if we could roll back to the -- to the answer, Diana. Towards the bottom of the page, the second-last sentence:

"Investment income earned on RSR balance is to support the RSR itself as a means of natural growth."

Can you confirm that this natural growth would arise from forecasted Basic total comprehensive income being expected to be greater than zero?

MR. LUKE JOHNSTON: Okay. If -- I -- I have to step back again. I'm sorry.

If we do what's being suggested and use the RSR investment income to lower the rates, if the RSR is $180 million today, and everything works out exactly perfect, the RSR balance will be $180 million next year, because by definition, you've taken every single dollar of investment income earned on the RSR, and you've used it to lower rates. Even though you don't have any of that money, and it totally would -- is against the whole point of having the rate stabilization reserve, not to mention that it's likely deficient right now.

So that's the first part. If we don't do that, and we let the RSR grow by the investment income, then -- then, yes, whatever the investment income earned on the RSR is, positive or negative, usually positive, then it would be expected to grow.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Can you confirm for the Board that the approach adopted for Basic insurance rate-making in Saskatchewan and British Columbia includes the expected return on investment assets supporting Basic total equity?

MR. LUKE JOHNSTON: Again, context is required. I can confirm that piece, but then let's go back to the problem that I just mentioned. If we rebate the investment income out of the rate stabilization reserve, it doesn't grow.

So Saskatchewan also has something called a capital maintenance fee, RSR rebuilding strategy. I can tell you that I would expect those types of maintenance fees or -- or rebuilding -- or building fee; I can't remember what SGI calls it -- to be greater than what we're asking for in terms of just to let the RSR balance grow by investment income.

But to your specific question, yes, SGI does that, but they also have maintenance and rebuilding fees that we do not have.

MR. ROBERT WATCHMAN: Could you explain for the Board in -- in general terms, the purpose and basis for a capital maintenance provision?

MR. LUKE JOHNSTON: So just first off, we -- we've never had that here, so I'm just interpreting how it's done in other jurisdictions. So we -- we do have a pre-ask, which I -- will be filed shortly, but I can -- our interpretation is as follows.

'Maintenance' could mean to make sure that your MCT score doesn't decline. And I -- I use MCT score because say we have a 37 percent MCT score. Our business will grow, and in theory, we'll need more capital, because we have a growing business, and our risks have -- have increased. If you had a maintenance fee that said, The RSR should at least stay at 37 percent MCT, then you could calculate quite easily what would be needed in additional rate to make sure that your relative level of capitalization doesn't decline.

So that's one (1) -- one (1) way of looking at it. And in -- in the pre-ask that -- that you'll get, we will -- we'll tell the Board what that maintenance fee would have to be over the forecast period to keep the RSR -- MCT score from falling, because it's currently expected to fall.

So that's -- that's that part. Another interpretation is, yes, SGI has a capital target, so -- and their target is 100 percent MCT. And my understanding of what they do is they say: Where are we today? Thirty-seven (37) percent MCT, for example. our target is a hundred. We want to get there typically in about five (5) years. Take the difference between that gap, divide by five (5), that's the -- the maintenance or growth fee that we require.

That would be an enormous amount for MPI because we're nor -- we don't -- we don't have a specific target today, but if we did, that would -- that's how SGI deals with that issue. I can't remember if they call a maintenance fee, or a reb -- a rebuild fee, or whatever, but those -- those are two (2) interpretations of what that might look like.

MR. ROBERT WATCHMAN: Okay. Now, you made mention of the -- the pre-asks, and -- and we don't have those yet, but the -- no doubt we'll have some questions, I guess, next week, based on that.

MR. LUKE JOHNSTON: Yes. Yeah.

MR. ROBERT WATCHMAN: But can you tell us -- are there any practical limitations to the Cor -- to the Corporation, including a capital maintenance provision in the Basic rate-setting process?

MR. LUKE JOHNSTON: I can think of one (1). So if we're just trying to ensure that our level of capitalization does not decrease, so my first example, 37 percent MCT. We just want to make sure that it doesn't fall. Then I would say there is no practical limitation to us proposing such a -- such a -- a fee.

If the idea is that we have a target RSR level in mind and we want to get there with a, say, a five (5) year period, or whatever is deemed appropriate, we don't have a RSR target right now in -- in terms of -- at least in our opinion. We have a minimum, and we're working on the -- what the maximum should be.

But we don't have a target. Maybe the target could be the middle of the range with the -- if the range is two hundred (200) to four hundred (400) and the target's the middle. That could be a target, but that would be one (1) reason why we couldn't propose an approach like that.

MR. ROBERT WATCHMAN: Now, if the Corporation were to be directed to include a maintenance -- capital maintenance provision in the Basic rate setting process, would this change the Corporation's position on the matter of including expected return on investment assets supporting Basic total equity?

(BRIEF PAUSE)

MR. PETER YIEN: In response to your question, and I want to bring this with the Board's voices, clearly their objective is to maintain the safety and soundness of the ins -- organization. It would be something that would be considered by the Board, but that's not something that has been discussed yet. So I'm not in a position to answer that at this point.

MR. ROBERT WATCHMAN: Diana, if we could pull up the PUB (MPI)-2-11, please. And this I -- this Information Request specified an approach to the determination of breakeven profit provision and requested determination of a resulting alternate rate indication.

Can you just summarize for the Board and explain the information provided in the response?

MR. LUKE JOHNSTON: Yes. So again, keeping it at a high level here, and just want to make sure I understand the question here. So at a high level we're trying to calculate here what -- if you could scroll down a little bit -- what the investment income would be on the assets supporting Basic total equity. So the -- the bottom line there.

The question is assuming -- is asking us to assume, I believe, a midrange -- let me just get the exact -- part 2 says:

"Assuming a Basic total equity approximately midway between the proposed upper and lower Basic total equity targets."

That's a pretty big assumption. We're -- we're nowhere close to that, so I'm not quite sure why that was used. But that assumption would -- again, my understanding that it would create an even larger assumed investment income because you're now assuming that you have total equity that's almost double the size that it is now.

So I don't know that I need to get into all the calculations. I can if you want. But really we're -- the fixed income portfolio is matched to claims. There's other assets earning investment income. Those assets are basically matched to total equity. They are an investment return and we're calculating what that investment income would be and deducting it from the rate.

MR. ROBERT WATCHMAN: Okay. So now, the -- your determination as to the investment return on assets supporting Basic total equity for the forecast period of 2018,/2019 would be 4.83 percent?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: Now, if -- if we look at -- and the investment section of the application and we can go there, if you like, but what it tells us is that the forecasted investment return on Canadian -- both Canadian and US equities is about 6.1 per -- or, sorry, 7.2 percent. That for the real estate pooled fund is 6.1 percent, and that for infrastructure is 7.1 percent, all of which seems considerably greater than the 4.83 percent. Can you reconcile the two (2) for us?

MR. LUKE JOHNSTON: One (1) second, please.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Rather than -- so that you can see the sources are listed on the -- the answer. I get -- I get your point that it would appear that equities are a big source of what's matched to total equity. So why isn't the return 7 percent, I think is what you're saying. So rather than speculate at all out, we'll undertake to provide a breakdown of that for you.

MR. ROBERT WATCHMAN: Okay. Okay. And just if you'd defer that for a moment because --

MR. LUKE JOHNSTON: Sure.

MR. ROBERT WATCHMAN: -- the next question we look more specifically at your calculation --

MR. LUKE JOHNSTON: Yeah.

MR. ROBERT WATCHMAN: -- which is set out there. And, Diana, and if we could go to -- in the investments section of the application, and it's figure INV-1. It should be on page 9 of the investment section of the application. Okay. So and we're looking at the column -- the fourth column from the -- from the right, being the 2018/'19 forecast period?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And the calculation that you made, the...

MR. LUKE JOHNSTON: M-hm. I see. Yeah. So the -- maybe I can just comment here. And thank you for bringing up the table. So in -- in the response, which we don't need to go to, I believe it says total investment income less the fixed income portfolio investment income. And just doing the math there gets down to -- I can't remember what the exact number was, but that would -- that would be the math as described in the question.

So the other -- the other rows at the bottom have offsetting or -- or negative impacts, so that might be the source for the -- for the difference. Very likely is, yes. So if this is sufficient, or if the question is why do we include that, we -- we can discuss that or I can put in the undertaking.

MR. ROBERT WATCHMAN: Okay. Well, in particular the question that we had with respect to this calculation is, so effectively it's line item 29, which would be total investment income?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And you would subtract from that the line item 5, which is the income -- interest income during period?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And then you -- it's a negative number. But then we go to line item 24, which is the amortization of bond premium/discount.

MR. LUKE JOHNSTON: Can you repeat that last one you said?

MR. ROBERT WATCHMAN: So it's the line item 24 --

MR. LUKE JOHNSTON: Yeah.

MR. ROBERT WATCHMAN: -- amoriz -- amortization of bond premium discount.

MR. LUKE JOHNSTON: Yeah.

MR. ROBERT WATCHMAN: And so you-- you then get a figure and reduce it to the 84 percent attributable at the bottom of the column?

MR. LUKE JOHNSTON: Yeah. Yeah, I was just -- I would expect our calculation to also include marketable bond unrealized gain/losses. But again, not having the calculation front of me. But -- because they're bond related. But again, subject to checking that, that's fine. Yeah.

And, sorry, your comment was on the -- and then we'd allocate a 4 percent to Basic, yes. Yeah.

MR. ROBERT WATCHMAN: So I just -- I -- I wanted to go up and look at line items 22 and 23 --

MR. LUKE JOHNSTON: Okay.

MR. ROBERT WATCHMAN: -- which are investment fees paid and pension expense. And the question is whether it's reasonable to apply 100 percent of the fees or the expense as a charge to the investment income on assets supporting total equity and, correspondingly, charge nothing to the assets supporting the unearned premium and unpaid claims provisions.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Rather than have a long discussion in the back here, so what we're struggling with is -- so on investment fees paid, yes, if they relate to the fixed income portfolio there might be -- it might make sense to try to allocate that. If -- if there's other expenses that -- like, if pension expense -- if -- if we don't think that's related or we need to allocate it and then maybe we can do that. But we'll have to come back with a undertaking on that because I -- I don't have a easy answer for you right now.

MR. ROBERT WATCHMAN: Just in -- in -- in terms of the wording -- wording of the undertaking, it would be to provide some explanation or a reconciliation between the calculation of the equity return and the return on investments in the investment section.

MR. LUKE JOHNSTON: Yeah. I think -- I can't remember -- the -- the que -- the IR that you were referencing, the 2-11.

MR. ROBERT WATCHMAN: Okay.

MR. LUKE JOHNSTON: So my understanding is -- is the allocation of the other expense items appropriate that are per line item time 5. Is that -- is that correct?

MR. ROBERT WATCHMAN: Yeah. There's two (2) parts to it.

MR. LUKE JOHNSTON: Okay.

MR. ROBERT WATCHMAN: It was -- the earlier question related to the reconciliation before the four-point-eight-three (4.83) --

MR. LUKE JOHNSTON: Okay.

MR. ROBERT WATCHMAN: -- the year with the investment -- the relative investment return in the investment section.

And then the second question relating to whether the investment fees paid and pension expense are appropriate charges to the investment income on assets supporting total equity.

MR. LUKE JOHNSTON: Agreed. We can do that undertaking. Yes.

MR. ROBERT WATCHMAN: Thank you.

MR. LUKE JOHNSTON: I can give it a try, of what I think I have to do.

THE CHAIRPERSON: We -- we need a lot more clarity and can I suggest we have two (2) undertakings rather than mixing it into one (1) --

MR. LUKE JOHNSTON: Sure.

THE CHAIRPERSON: -- because I think they're two (2) separate questions.

MR. LUKE JOHNSTON: Okay. So if we can go back to the Information Request and don't quote me until everyone agrees, I guess. So per PUB-2-11, please reconcile the calculation of the investment return on assets supporting Basic total equity using the information from volume 2 investments. That right?

--- UNDERTAKING NO. 14: The Corporation to reconcile the calculation of the investment return on assets supporting Basic total equity using the information from volume 2 investments

MR. LUKE JOHNSTON: And then the second undertaking -- could you go back to the other? Yeah. Maybe you can do this one (1).

MR. ROBERT WATCHMAN: Well, the question relates to whether or not the line items 22 and 23, being investment fees paid and pension expense are appropriately charged to the investment income on assets supporting total equity.

MR. LUKE JOHNSTON: Agreed.

--- UNDERTAKING NO. 15: The Corporation to confirm whether line items 22 and 23, investment fees paid and pension expense, are appropriately charged to the investment income on assets supporting total equity

THE CHAIRPERSON: I'm just wondering how much longer you have in this? I'm trying to figure out when we have the break. And we've got our friend Mr. Oakes here waiting patiently to do a -- a cross. I'm just wondering if we're going to get to him this afternoon or not.

MR. ROBERT WATCHMAN: Yes, it is going slower than anticipated. Perhaps -- well, if we could just perhaps go to 2 -- 2:30?

THE CHAIRPERSON: Okay.

MR. ROBERT WATCHMAN: And then take a

break and then maybe make a determination as to --

THE CHAIRPERSON: Well, yeah, if you could figure it out because I don't want Mr. Oakes wasting his time here if he's not going to be cross-examining till tomorrow morning.

MR. RAYMOND OAKES: Time is never wasted in these confines, Mr. Chairman.

THE CHAIRPERSON: And -- and honesty is occasionally appreciated, Mr. Oakes. Thank you. Yeah. Okay. We'll -- we'll go till 2:30 or -- or shortly thereafter.

MR. ROBERT WATCHMAN: Thank you.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Diana, if we could now go to PUB/MPI-1-12. And this Information Request relates to another standard of practice, being that the investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate.

So again, do you accept that this is the relevant guidance for actuaries deriving indicated rates for insurance contract of property and casualty, insurance who are doing their work in accordance with accepted actu -- actuarial practice in Canada?

MR. LUKE JOHNSTON: I accept that.

MR. ROBERT WATCHMAN: Now, if we scroll down to the response --

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: I apologize. I was on the wrong page. So if we go to response (a), it provides that the Corporation has used the projected dura -- duration-weighted investment return of the Corporation's fixed income portfolio as the basis for the discount rate selection on the assumption that this investment turn is reflective of the assets that are expected to be acquired with the net cash flows. This approach is consistent with accepted actuary practice quoted in the preamble.

Now, given the emphasis on new money returns in that standard, how is the use of the portfolio return, which -- which would include assets purchased over several prior periods, be consistent with the accepted actuarial practice?

MR. LUKE JOHNSTON: So the view here is that, as we've talked about, ee have a fixed income portfolio that is matched to our Basic claims liabilities. So to the extent that we have claim cash flows our expectation is that those liabilities will be supported by the fixed-income portfolio and any -- the -- the assets we purchase will be reflective of what's in the fixed income portfolio.

So maybe an example. If we have assets to invest we don't buy -- I'll start over here. Our investments reflect the requirements of the fixed-income portfolio. So if the Department of Finance needs to buy a hundred million dollars of bonds to ensure that the claims match the liabilities and match the fixed income portfolio, they will buy those assets at the duration that we need to maintain the matching. They won't buy it, right?

So all we're assuming here is that any new monies that are invested will reflect the current fixed income portfolio. And for that reason, it's appropriate to assume that that discount rate should be used on the cash flows for the -- for the claims and expenses and in the rate setting process.

MR. ROBERT WATCHMAN: Okay. And, Diana, if you could scroll down to the bottom of the page. I just want to confirm the second last sentence there. It says that:

"Every ten (10) basis point change in the assumed discount rate results in approximately twenty (20) basis point change in the 2018/'19 rate indication."

And if you can just confirm that that is the Corporation's estimation?

MR. LUKE JOHNSTON: That -- that is. Yes.

MR. ROBERT WATCHMAN: Mr. Chairman, that might be a convenient place to break.

THE CHAIRPERSON: Thank you, we'll --

MR. MATTHEW GHIKAS: Mr. Chairman, if I -- sorry to interrupt you.

THE CHAIRPERSON: Yes, Mr. Ghikas.

MR. MATTHEW GHIKAS: I just wanted to just add one (1) thing, because you mentioned the possibility of Mr. Oakes carrying over tomorrow morning. I just wanted to make sure that -- that the panel and everybody was aware, we were anticipating that Mr. Keith was going to be starting first thing tomorrow morning. And there's an availability issue with these witnesses. So in the event that Mr. Oakes was pushed off, at the earliest I think we would be hoping that that would be resumed after three o'clock tomorrow.

THE CHAIRPERSON: Okay, we're -- I was going to talk to our counsel to try and talk to all the counsel now to figure out the timing. So -- and she'll talk to you as well.

MR. MATTHEW GHIKAS: Perfect.

THE CHAIRPERSON: Okay. Thanks.

MR. MATTHEW GHIKAS: Thank you.

--- Upon recessing at 2:28 p.m.

--- Upon resuming at 2:51 p.m.

THE CHAIRPERSON: Okay, Mr. Watchman, if we could resume.

MR. ROBERT WATCHMAN: Thank you.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Just a couple more questions on ratemaking. Diana, could you pull up PUB-MPI-2-13. And if you scroll over to the second page, and this is the Corporation's projected new money yields by bond.

Can you confirm the Corporation's estimate is now 3.42 percent?

MR. LUKE JOHNSTON: That's correct.

My recollection is of the first round question on this -- on this topic actually grouped two (2) sets of bonds together incorrectly. So this -- this is the -- the correct reference, yes.

MR. ROBERT WATCHMAN: Thank you. Now, in my rates -- in understanding the discount rate that was used in the -- or assumed in the General Rate Application was 3.7 -- 3.78 percent.

MR. LUKE JOHNSTON: I assumed you had it right, but I thought I'd double-check. Yes.

MR. ROBERT WATCHMAN: And that represents a 36 basis point spread?

MR. LUKE JOHNSTON: Over the number in the figure 1, yes.

MR. ROBERT WATCHMAN: Now, just before the break we talked about the estimate that every 10 basis point change in the assumed discount rate results in approximately 20 boyce -- basis point change in the rate indication?

MR. LUKE JOHNSTON: Approximately, yes.

MR. ROBERT WATCHMAN: So based on that estimate as to sensitivity to changes in the assumed cash flow discount rate, can you confirm that the indicated rate would change from the plus 2.7 percent to about 3.4 percent, based on using the 2018/19 new money yield of 3.42 percent?

MR. LUKE JOHNSTON: I can confirm that as long as we recognize that it's not an exact calculation, but should be in the neighbourhood of that number, yes.

MR. ROBERT WATCHMAN: Now, in response to item (c), given the fact that the basic renewals are staggered throughout the year, why is it reasonable to assume the prevailing interest rates when premiums first come into effect, i.e., on March 1, 2018? And is this an assumption that's linked to the assumed use of the naive interest forecast?

MR. LUKE JOHNSTON: For -- for our purposes, we -- we did choose to discount to the beginning of the policy year. The suggested approach, obviously, is reasonable as well, to use the -- the average earning period I think is the -- the terminology used.

Selecting this date also has the benefit of reducing interest rate risk, yes, as per the response.

MR. ROBERT WATCHMAN: But in reality, the income will be coming in throughout the twelve (12) month period going forward from March 1st, 2018.

MR. LUKE JOHNSTON: The premium income would come in -- yeah, throughout the year and be earned over two (2) years.

MR. ROBERT WATCHMAN: Diana, if we could turn to the investment section, Volume 2 of the application, Figure INV-12. And that sets out the historical bond yield and the spread from --

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: -- the Government of Canada ten-year bonds.

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: So there's an - an assumed Government of Canada 10-year bond yield in the GRA at 1.64 percent. If we scroll down, Diana. Is that -- as of February 2017?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: But the Corporation's new yield -- new money yield on Corporation's bond portfolios, as we just discussed, at 3.42 percent, which gives us a spread of 178 basis points?

MR. LUKE JOHNSTON: Subject to checking the calculation, I agree.

MR. ROBERT WATCHMAN: And if we look at this historical spread, the 178 basis points would actually be greater than we've seen going back in this -- in this table?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: We're going to look at PUB-2-13, at the new money yields, but I'm not sure the date -- the as-of date of that calculation, so we're going to check. I just want to make sure it's not as -- if it's as of August 31st, then, for example, 1.64 wouldn't be relevant anymore. But we're looking at that. If that's not the case, I'll -- I'll undertake to explain the gap which -- like, I can see your point. Why would it be greater than the -- the max.

MR. ROBERT WATCHMAN: Could it possibly be related to the corporate bonds?

MR. LUKE JOHNSTON: Possibly, yes, but I'll confirm that. That would make sense.

MR. ROBERT WATCHMAN: Okay, thanks. So the undertaking will be to explain the basis and derivation of the implied 178 basis point spread?

MR. LUKE JOHNSTON: Just one -- one moment please.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, we'll -- we'll undertake to do that. We're just looking at PUB-2-13, there is a marketable bond yield there at 3.37. I was hoping maybe I could just tell you what the number was without the corporate bonds, but I don't have that readily available.

So, we'll undertake per -- maybe you could repeat it for us, but we'll do that.

MR. ROBERT WATCHMAN: So the undertaking is to provide the basis and derivation of the implied 178 basis point spread adjustment as forecasted.

MR. LUKE JOHNSTON: Yes.

--- UNDERTAKING NO. 16: MPI to provide the basis and derivation of the implied 178 basis point spread adjustment as forecasted.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Now, there are a couple of pre-asks relevant to ratemaking and so we'll defer further questions on that until next week, and would like to now move on to the area of dynamic capital adequacy testing.

And we'll -- we'll break this down in terms of the -- the testing itself, the lower threshold, the upper threshold and the question of rebuild and rebate in separate sections.

So, just dealing with the dynamic capital adequacy testing itself, you're agreed that, in general, the actuary's opinion in the context of the DCAT relates to whether or not the insurer's financial condition is satisfactory.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: In general, what are the requirements for an insurer's financial condition to be deemed to be satisfactory?

MR. LUKE JOHNSTON: Okay, so there's -- there are general rules and then there's -- we have to use those rules to applied it to the -- this situation.

So, the first condition would be that in our base case scenario -- so the base case scenario being the same as what's been applied for in this GRA, the base scenario has to remain above the regulator's minimum capital requirements over the forecast period.

So in -- in the private sector, there is a supervisory target of 150 percent MCT. The absolute minimum of 100 percent MCT. We're not operating in that environment. So, as the actuary I have to make a reasonable assumption about what our minimum capital requirements are in Manitoba and the most reasonable assumption that I -- I thought could be used is calculate our DCAT minimum capital requirement, convert that to a MCT score, and then assume that that MCT score is needed or would be equivalent to the capital targets in future years.

So I can't really calculate what the DCAT will indicate four (4) years from now, but I can use this year's DCAT number, convert it to an MCT score and tell you what the MCT scores would be in the future. So, that's the first condition to meet the regulator's minimum capital requirement in the base scenario.

The second one is that total equity remains above zero in all the adverse scenarios. The -- all these -- sorry, plausible adverse scenarios tested in -- in the report and plausible meaning not less likely than 1:100 but not more likely than 1:20. So, between 1:20 and 1:100 is seen as a reasonable probability level for something that's both plausible and adverse.

So, with guidance from the collaborative process and Board Orders, we've used 1:40 years as the threshold for testing the adverse scenarios.

So, the second condition, all 1:40 adverse scenarios have to result in total equity above zero over the forecast period. And that's including assumed management and regulatory action.

MR. ROBERT WATCHMAN: So specifically the DCAT testing is specifically for Basic.

MR. LUKE JOHNSTON: This -- this report, that is for Basic, yes.

MR. ROBERT WATCHMAN: Now, for the current Basic DCAT, are there any differences between the DCAT-based scenario and the application for pro forma financial forecasts?

MR. LUKE JOHNSTON: There is not.

MR. ROBERT WATCHMAN: So the base scenario in your testing reflects the proposed 2.7 vehicle premium average increase and the proposed 1.8 percent driver premium changes and the proposed shift to corporate bonds in the investment portfolio?

MR. LUKE JOHNSTON: Correct. Everything that's included in this application in the base scenario.

MR. ROBERT WATCHMAN: Diana, if we could go to -- in the DCAT portion of the application, Volume 2, Figure DCAT-9.

And so for the dynamic capital adequacy testing that you conducted for this application, the minimum capital requirement used to test the base scenario for satisfactory financial condition is 201 million for 2018/19?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And that increases through to 239 million for the final year of the forecast 2012 -- sorry, 20/21 and 20/22.

MR. LUKE JOHNSTON: That's correct. And again, the assumption I made here was that the MCT ratio -- that the 201 million is in terms of MCT today will be the minimum target four (4) years later, that would be adjusted for the size of the business at that time.

MR. ROBERT WATCHMAN: Now, the lower total equity threshold for the Basic target capital that was approved by the Board in Order 162/16 was 159 million.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And you have

indicated -- and perhaps, Diana, we could go to the rate stabilization reserve section of the application at -- to item RSR-4.2.

And so here is -- is where the reference is to the Board transferring 27.8 million from Extension to Basic RSR as of February 28, 2017. And you indicated that the transfer was made to ensure that total equity was at 181 million. And if we go down to the next paragraph...

Okay. So the 181 million was required for the Basic to be in satisfactory financial condition as per the 2016 DCAT report.

Now if that was the original report and at that time the forecast -- forecasted rate increase was 2 percent?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So -- so the 181 million threshold was based upon a projected 2 percent forecast, but you were -- the Board approved a 3.7 percent increase.

Now, did you go back and redo the capital testing at 3.7?

MR. LUKE JOHNSTON: No. So we had a -- as per the paragraph here, we updated the lower target based on a revised DCAT, assuming a 4.3 percent rate indication.

So -- and as you mentioned, we also had a DCAT with a 2 percent indication. So at the time of this Order I knew that -- I basically knew one (1) thing, 159 million was not the right number for a 3.7 percent rate indication.

Given that it's just mid December at that time, we're literally about to start the next DCAT. I advised our board that I couldn't tell them that 159 was the right number without redoing the DCAT, but I did know that the original DCAT, which they approved at 181 would be sufficient to meet satisfactory financial condition per the year's original assumptions on that report.

So, rather than potentially have on -- an RSR amount that was insufficient, the board decided to transfer funds up to the higher number to ensure satisfactory financial condition.

MR. ROBERT WATCHMAN: Now, if you had -- if you had redone the DCAT at the 3.7, you would've expected the threshold to be closer to the 159 figure?

MR. LUKE JOHNSTON: Proportionally, likely, yes, that would make sense, yeah.

MR. ROBERT WATCHMAN: Diana, if we could go to DCAT.1. This is the part where you have to sign off?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: So now in the third paragraph, the beginning of third paragraph, you indicate that it's your opinion that in the current DCAT the future financial condition of Basic is not satisfactory.

Can you tell us what test condition for satisfactory financial condition failed?

MR. LUKE JOHNSTON: The -- just give me one (1) second I'll get to the -- or I could just read it, I guess.

The first condition that the base scenario meets the assumed minimum capital target of the Manitoba regulator being the Public Utilities Board over the forecast; that -- that was not met.

The capital level is static or declining over the period and the target is -- is expected to increase. So, that was the reason.

MR. ROBERT WATCHMAN: Diana, if we could go to pro forma .3. And if we could just scroll down towards the end to the -- the line on the total equity balance.

Now, if we look at the last five (5) columns going to the -- to the right, that would be the forecast -- that would be the years 2017/18 FB and then beyond. You're forecasting a gradual decline in total equity over the forecast period.

Can you explain why that is?

MR. LUKE JOHNSTON: Yes. Yes, I can. There -- basically there's a minor negative net income. I don't have all of it in front of me here, but there are net losses projected over the forecast period, which brings down total equity. So if you go from -- if you could scroll the top, just so I can see the years here. Yeah twenty (20) -- okay, so -- 2020 falling to 192, seven (7) to $10 million a year of losses on average. Drawing that number down by about 28, 30 million.

MR. ROBERT WATCHMAN: Okay. Is -- is is that as a result, that the modeling assumption assumes that there is no further changes will be made in response to -- no further rate changes will be made in response to rising claims cost over the forecast period apart from the 2.7 percent increase in the 2018/'19 year?

MR. LUKE JOHNSTON: That is the reason. And your next question is probably why would you do that. So, first all -- first of all, there is a -- there has already been extraordinary management action taken in this application, that -- that I'm aware of. So there -- there is management action applied in here. We don't -- we haven't calculated or attempted to calculate the exact expected rate indication in all of the future years. But the net income would be expected, on average should be pretty close to zero.

However, under accepted actuarial practice changes such as, for example, changes to the unpaid claim liabilities, which cause losses wouldn't be considered in the calculation of the rate. So, for example, if we see the discount rate on claims liabilities declining slightly over the period we're going to get net losses from -- due to claims liabilities unrelated to any new policies that we issue.

So, long story short, what I'm saying is there's no guarantee that ARAP rate indication's going to show increases to exactly offset that -- that amount.

And then further, at the time I prepared this, I didn't -- it's my impression that RSR rebuilding fees were not forthcoming by our board. So that assumption was not included in this scenario in order for it to be a best estimate or a realistic estimate.

MR. ROBERT WATCHMAN: Okay. Sorry, just for clarification --

MR. LUKE JOHNSTON: I can -- I can expand. So, if -- so I -- I have -- we have the actions from this particular rating year. I have no indication that there is going to be an effort to rebuild the RSR at this time, not say that that won't happen or that rate increases won't happen, but I -- so that wasn't something that I put into the scenario.

And -- yeah, is that okay? I'm just saying that I really had no indication that there is significant manag -- management action coming in future years to address the issue that caused the unsatisfactory financial condition.

MR. ROBERT WATCHMAN: Diana, if we could go ahead to DCAT.1.8 in that volume. It should be Page 15.

Can you tell us wh -- what recommendations do you make to address what you would consider to be the root causes for Basic's financial condition not being satisfactory?

MR. LUKE JOHNSTON: Can you repeat that? I -- I missed part of it.

MR. ROBERT WATCHMAN: So the question

is: What recommendations are being made to address what you would consider to be the root causes for Basic's financial condition not being satisfactory?

MR. LUKE JOHNSTON: We can go through these.

So point Number 1) is really the -- the 1:40 year calculation that we use to determine the minimum capital target and that was the 201 million.

MR. ROBERT WATCHMAN: So -- sorry, I don't mean to interrupt.

MR. LUKE JOHNSTON: Yeah, sure.

MR. ROBERT WATCHMAN: We're just looking at those ones that are -- that are relevant to the cause -- to the root cause.

MR. LUKE JOHNSTON: Sure, I'll stay on Number 1. I'll tell you why it's relevant. So one might ask why would you pick 201 million if it doesn't give you satisfactory financial condition. So 201 million is the number to withstand the adverse scenarios as we modeled in the -- the report, but doesn't address the ongoing lack of natural growth, or lack of any growth in the -- in the rate stabilization reserve.

So let's say that the lower RSR target is assumed to be 240 million in four (4) years from now. I wouldn't want to tell our board, you know -- you do need $245 million today to ensure that you are sufficient, you know, four (4) or five (5) years -- years from now.

That's why -- like we could do that but we'd basically be saying, let's pay for the losses of the next four (4) or five (5) years by having more RSR today. That doesn't seem appropriate so -- so that's why the 201 is -- is just kind of recommended on its own.

The second piece, Number 2) is very applicable. We -- we're always going to be on the -- the cusp of unsatisfactory financial condition if we don't have an RSR range. If we're just sitting on the very edge all the time. So we prefer to have -- it would make sense to have a -- a range where you could handle a normal amount of financial variability and the model used in this report is just, that there's existing DCAT scenarios.

So it's recommended here that the Corporation have an upper target and -- and -- and in this report I'm trying to stay somewhat separate as that as the actuary, and just say that the proposed upper target by the Corporation wouldn't be reasonable to achieve this recommendation.

If you can scroll down. We need a way to rebuild the capital. If that's -- if that's not through the RSR investment income. If we -- if we continue to include that in the ratesetting -- it's RSR is never going to grow if you have a range here or not, you never -- you're always -- you're never going to get in that range, anyway. So the range is almost irrelevant.

So as it says here, right now. We can only grow by -- by luck, chance occurrence and transferring money from competitive lines, or through rebuilding fees. It would be a big improvement to have a natural way to do that. We're suggesting through the RSR investment income. Another method could be through some sort of maintenance provision.

I don't know if I need to go through all these. There's four (4), obviously if you fall below the lower target, we should try to not be below the lower target. And take management actions. That's probably -- for your specific question, I think that's probably it.

MR. ROBERT WATCHMAN: Thank you. Has the 2017 DCAT report been presented to the Corporation's Board of Directors, or audit committee?

MR. LUKE JOHNSTON: Can you repeat

that. Sorry.

MR. ROBERT WATCHMAN: Has the 2017 DCAT report been presented to the Corporation's Board of Directors, or audit committee.

MR. LUKE JOHNSTON: Oh, yes.

MR. ROBERT WATCHMAN: Are there any plans or steps been taken to address the financial condition of Basic?

MR. LUKE JOHNSTON: So... Mr. Yien is going to comment, as well. There are very significant management actions taken this year and just on -- in terms of the rate, in addition to cost containment measures, et cetera. And then in addition to that also, some of our proposals, such as not using the RSR investment income to reduce rates, having a adequate RSR range, et cetera, can be considered management actions in terms of working with the regulator to try to address this issue. And I'll -- I'll let Mr. Yien speak.

MR. PETER YIEN: So in terms of the 2018 GRA, you've seen the stretch and I'm not going to repeat those stretches. I think it is important to reiterate, the Board's position on rebuilding the RSR. I mentioned in my opening remarks that they do want to run this organization sound and financially safe.

Using tools out there that need to consider certainly running a Corporation at a DCAT dynamic capital adequacy test minimum, that doesn't compare anywhere to the minimum of others. Even though, yes, there are -- the Board doesn't recognize that there are -- the nature of those organization may be slightly different. But the differences so -- order of magnitude is so high, it's har -- it's hard to rationalize why we would be the lowest.

When we, on the other hand, get challenging on our metrics to be leading, whether it's a Ward study, or whether it's Gartner Group, we're going to have to be at the top there. But at the other end, we have to get the lowest in everything in terms of safety and soundness. That's very hard for the Board to recognize.

Having said that, the -- the Board is aware that there may be things we need to slow down. And that's the part of the business strategy that will come. There were questions earlier for me specifically around technology expenses, and depending on how we think about this week, we may slow certain things down, we may speed certain things down (sic) and -- and that could drive savings.

So ultimately, I think what I would say

is going back to that optimal range that was talking about is that we need to get into the optimal range and running within that. And the buil -- rebuilding will take time and we -- we totally understand that. And hence the conditions, investment in bonds creates a level of risk for the organization.

And there was a question yesterday, specifically around why some of the return is higher. Anecdotally one (1) of the reasons, not the only one, is that they do have a higher rate stabilization reserve. And when you do have a higher rate stabilizing reserve, you are able to take higher risks. And by being able to take higher risk you can generate higher returns, and that gives us a chance to rebuild that RS -- that rate stabilization reserve so that it doesn't stay at the minimum. It is a journey and it is a process, but I do believe the Board is committed to making that happen.

And then the final piece is stabilization of rates, as well. Just making sure that as we build on this journey that we charge the right premiums. We totally minimize the risk, essentially, other than the really big and controllables, like the weather that we were talking about. But essentially, I think as we build it up we get more and more protected. And as we get more protected, we shelter ourselves against the risk. We can take on more risks and in the long term, it does benefit all Manitobans. So we are committed in terms of driving that and building that RSR.

MR. ROBERT WATCHMAN: Okay, just perhaps for clarification. I think a lot of the things that were referred to are things that appear in the General Rate Application, but the -- the question was more specifically directed to: What steps have been taken directly in response to the 2017 DCAT report, which is, you know, wasn't prepared until after the GRA.

MR. LUKE JOHNSTON: Yeah, no -- and I -- I think -- I think I provided those already. The -- the -- the significant actions in terms of the -- the rate requirements, the ask of the -- or the application to have an appropriate RSR range, the application to not rebate the RSR investment income.

If -- those types of measures are attempting to get us on -- on the right track. And then we -- we've also made commitments in the application that if we can get these appropriate rate stabilization reserve target, then maybe there's other ways that we can try to rebuild that target. So that, I think that -- that would describe the --the reaction.

MR. ROBERT WATCHMAN: Thank you. I'd like to move on now to the tarp -- target capital analysis in respect of the lower threshold and -- and just so there's, hopefully for clarification on the record. The various terms that have been used, RSR lower limit, or basic total equity, lower threshold... we're talking all about the same thing here.

MR. LUKE JOHNSTON: For this purpose, yeah, total equity, rate stabilization reserve, RSR that -- we call it the same thing.

MR. ROBERT WATCHMAN: Okay. Diana, if we could go to RSR.4.5.1.3, which should be page -- there before I am. Okay. So if we just scroll down to look at that RSR-7.

So the testing for this target is based on what's referred as to the -- as the combined scenario. And if the results are after routine management regulatory actions at a 1:40 year probability level over a two (2) year time horizon. Testing basic total equity to remain above zero. Correct?

MR. LUKE JOHNSTON: That's correct. That's a -- a very long description basically saying, we tested over four (4) year periods any scenarios that would cause total equity to fall to zero, including management action. It doesn't have to be the two (2) year. But, in this case, the way it works out in the scenarios is that the two (2) year scenario happens quite rapidly. You're not able to do a lot of management action on something that occurs that quickly. It turns out that that combination results in the worst-case outcome in terms of what you need today.

Four (4) year scenarios can easily get well over 300 million, so just so the Board understands, it's not that we don't model 300 million plus scenarios. But when you say, start including management action, RSR rebuilding fees, rate increases all that, it doesn't stop the worst scenario anymore. But it shouldn't be interpreted as, you know, we don't -- it's not a significant event. Rate increases and RSR rebuilding fees obviously a big deal. So, just so everybody knows what's in that table.

MR. ROBERT WATCHMAN: Okay. Diana, if you go back two pages, to Page 13, sorry Page 14. And the RSR-3 talks about.

So, when we talk about the combined scenario, it integrates three (3) risk categories; the declining equity investment returns, declining interest rates and elevated claims experience, including recognition of correlations between the risk categories; is that fair to say?

MR. LUKE JOHNSTON: That's correct. And we also added a corporate bond default risk into that scenarios as well.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Can you tell us why the combined scenario was selected for the purposes of determining the target?

MR. LUKE JOHNSTON: So the -- the combined -- so really we test all -- all the scenarios that we model at 1:40 year and the combined scenario was seeing -- was determined to be the most adverse 1:40 year scenario.

MR. ROBERT WATCHMAN: Diana, can we go -- move ahead to DCAT-5.5.6, which should be Page 52.

And so this provides a more detailed explanation as to the combined scenario. If we go to the bottom of the next page, there's reference to the interest rate floor methodology was again used when modeling interest rates.

Can you tell -- tell us what the floor was and how it's selected?

MR. LUKE JOHNSTON: Yes. So interest rate modeling is -- is difficult right now. When you talk about using historical data. What relevance is the data when you're at the lowest interest rates of all time? It's -- it's not -- not easy. So the way we do our interest rate modeling, is we say, What's the interest rate today? Historically, how much of it, you know, how often do interest rates increase by 10 voice -- basis points over the next year? How often by twenty (20), thirty (30), forty (40)? And then opposite for -- for down -- downward movements.

That's the best way we've come up with to model something that reflects reality. It's not perfect, but that's the idea. So in the long term, on average, such a model would show that interest rates stayed the same. The ups and downs cancel out. When we're in a really low interest rate environment, like we are now, clearly the chances of declining are -- are somewhat capped by the lowest possible that interest rates can go.

So to avoid having nonsensical results, we put a interest rate floor in basically at the observed lowest interest rate in the history. Just to make sure that none of our scenarios fall below that -- that rate.

MR. ROBERT WATCHMAN: And, I understand the ten-thousand (10,000) simulations are run for the combined sara -- scenario is that right?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: So what are the practical consequences of imposing an interest rate floor when it comes to ranking the results?

MR. LUKE JOHNSTON: Right now, the floor being at such a low level, the floor is -- we constantly reach the floor. Like it -- it would be like saying, If we're at the floor, how low can we go? The answer is, We can't go any lower.

So a lot of the scenarios hit the floor and just stay there, and that actually lowers the risk in the DCAT, and -- and the -- the reason is that MPI's adversely impacted -- or the -- or Basic insurance is adversely impacted by declines in interest rates.

If we're close to the assumed lowest interest rates of all time, the likelihood of a decline is -- or leaving the magnitude of the decline is -- is low, so you don't need as much in your risk provision if -- if rates can't go any lower.

If, one day, we kind of return to a normal interest rate environment, there will be a greater interest rate risk in this DCAT report, because now you can actually fall two hundred (200) basis points in -- in theory. Today, that's -- that's not possible to fall by that much.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Now given the increased significance of corporate bonds in this application, so you -- and as you mentioned, this DCAT report introduces corporate bond default rate assumption in the combined scenario.

Can you tell us what is the purpose of the assumption, and how does it affect the model, and -- and what is it based on?

MR. LUKE JOHNSTON: Okay. So if you don't mind scrolling to, I believe it's one (1) page underneath where you are, 54. Yes.

So all things equal, our scenarios are basically the -- the same -- or our risk profile is -- is very similar to last year with the exception of this assumption that corporate bonds are going to be purchased. So our risk is changed. And for the DCAT to be appropriate, we need to model this new risk and the -- and the results.

On their own, corporate bonds of the type you're talking about purchasing as low as triple 'B' have very low default rates, and a corporate bond only scenario wouldn't be deemed a top ten (10) adverse scenario, so it doesn't need its own special section in the DCAT.

However, for the combined scenario, we wanted to make sure that the default risk of corporate bonds was under -- was understood, of course, for the Board, but also for our own board to understand what the -- what the DCAT was predicting was the additional risk from the bond decision. So that's why this model was included in there. And it's included in the same way as the other risk factors, recognizing the correlation.

We also performed an analysis of 100 percent MCT with and without the bonds, and made sure that our model was predicting reasonably the additional risk, and -- and it -- and we believe it is. So in the MCT, which is a -- a -- closer to 1:100 year risk level, the addition of the corporate bonds added about $9 million to our 100 percent MCT calculation. At the DCAT level, it's about 1:40.

It's about 3 to 4 million.

MR. ROBERT WATCHMAN: Diana, If we could go to -- back to the RSR section of the volume, page 13, RSR 4.5.1.1.

This -- this, then, speaks to using adaptation of the -- of the DCAT through iterative modelling. And so the first point there was future iterations of DCAT-based RSR target tabulations should be based on the iterative process. That's first described in PUB-MPI-1-25 at the 2017 GRA.

And the response was that the Corp -- Corporation is in agreement with that?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: So if we could go now to PUB-MPI-2-40.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And so this Information Request is directed to this type of modelling. It asked for various versions of the target capital analysis.

MR. LUKE JOHNSTON: I think the reference on the screen is -- is wrong. Maybe -- or -- or my -- maybe not. Okay. Sorry about that.

MR. ROBERT WATCHMAN: Sorry. Sorry. I stand corrected. It may not be a reference -- this one may not be a reference to the iterative modelling.

It asks for various alternate versions of the Corporation's target capital analysis incorporating interest rate forecasts, reflecting to different degrees the August 2017 bank interest rate forecasts.

And can you confirm this change, that this change, all other things being equal, increases the Corporation's estimate of the minimum lower RSR target from 201 million to 215 million?

MR. LUKE JOHNSTON: Yes, I can. If you want to scroll down, to think it's Figure 4 in this response, again, that might seem counterintuitive. Interest rates rise. Why does the lower target rise? That's really the scenario I just described.

If interest rates increase, they have more potential to fall. It might seem a little strange in -- in the environment we are, where we're so close to the lowest interest rates we've ever seen, but I think it makes sense, you know, if you think about it going forward.

MR. ROBERT WATCHMAN: Thank you.

Diana, if we could just go to the next IR 2-41.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And -- and this is where we requested the lower threshold target capital analysis following the iterative modelling, and in particular, this modelling was the combined scenario -- scenario at the 1 in 40 year percentile probability level with routine management, regulatory actions over a two (2) year time horizon, and testing for Basic total equity to remain above zero.

Now, in the preamble to the question:

> "Explain that the iterative model leverages dynamic modelling of DCAT to simulate the financial behaviour of Basic insurance operations at a total equity level approximating the lower end of the capital -- capital [sorry] -- target capital range."

Now, in the preamble to the response, Corporation expresses its reservations about this approach. But for the benefit of the Board, could you just explain to the Board the Corporation's reservations about the modelling approach?

MR. LUKE JOHNSTON: Yes, for sure. So we provided a DCAT. It's using a best estimate forecast with scenarios modelled off of that best estimate forecast. What is -- is being done in several of these questions is to assume a certain target capital position and then assume that you maintain that the position throughout the -- the base scenario, and that the -- the difficulty is that we're running the scenarios as requested, but in this example, to -- to achieve that hypothetical base scenario, we have to transfer $68 million of money from what we're assuming is extension, just because we need somewhere to get the money from. And then we're modelling a result.

We're struggling with why we'd want to do the modelling this way versus what we've provided in the DCAT. That's -- that's really it. If -- I -- I can talk to your actuarial advisor if I may be missing the point here, but that's our struggle.

Ever -- the -- some of the scenarios get more extreme, and you have to transfer really large amounts of money into the RSR to -- to replicate the base scenario being requested, and that just -- we just struggle with why that makes sense.

MR. ROBERT WATCHMAN: Based upon the

modelling that was requested, if we could go to Appendix 3J.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: That should be page 9. Is that...? The next -- 'H', 'I', 'J', up -- could you go to 3J, a couple pages forward. Page 9, I believe.

Okay. So we should be at PUB-MPI-2-41. We're -- it should be 2-41? I think we're at 2-42, page 9.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Just -- if you could scroll down, I think we could fit the -- if we can try to get the whole table on there. Okay. Here we go.

So the scenario that we're modelling would provide for total Basic equity to go to zero in the 2020 year, if it's a two (2) year forecast?

MR. LUKE JOHNSTON: Again, just to be clear for everyone, per the conditions of this scenario, in this -- and -- and -- or this request only, which isn't something we're recommending. But -- but to your question, yes, 2020.

MR. ROBERT WATCHMAN: Okay. So if we go down to the last line in the -- in the table...

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Okay. So if we look at the second-last line, the total equity, under 2020 is where we come to zero, and the indication would be that in 2018, the lower threshold would be approximately 161 million. Is that correct?

MR. LUKE JOHNSTON: Correct.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Okay. So the 161 million would be the lower threshold under the combined scenario at the 1:40 year probability, including routine management and regulatory actions that over a two (2) year time horizon would result in Basic total equity remaining above zero?

MR. LUKE JOHNSTON: Under the conditions of adequately transferring in funds to achieve the assumed base case RSR in this question, so maybe that could be saying, If we had built in our base scenario and assumed RSR maintenance fee as part of the base case, which is not the base case, then we wouldn't need as much of the initial RSR as that. Is that -- that's what -- what my interpretation of this request is, yes.

So like you said, one sixty-one (161), and maybe I missed your -- didn't answer your question, but let me know. Sorry.

MR. ROBERT WATCHMAN: I think -- I think the -- the point here is -- is that the -- the combined scenario here, or the -- the model, the iterative model, the -- here in terms of the combined scenario sounds very similar to the Corporation's objective that target capital -- in its target capital analysis, and yet we result in a $40 million difference in the lower threshold.

And from your perspective, what is it that's driving that difference? Why -- and -- and --

MR. LUKE JOHNSTON: Sure.

MR. ROBERT WATCHMAN: -- why do you feel that the Corporation's estimate is superior?

MR. LUKE JOHNSTON: I think -- yeah. I think I just described it. I'll repeat -- I'll repeat it maybe more clearly. The assumption in the base case scenario that your RSR balances can remain consistently capitalized is not the case right now. So if that was the case, and it was appropriate to assume that, then we would probably show, like, the same number as you, but that's why -- that's what the main reason I think why we don't.

MR. ROBERT WATCHMAN: Thank you. I'm going to move on now to the determination of the upper threshold. And, of course, the Corporation is proposing a -- a maximum upper RSR target of 438 million based on 100 percent MCT?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: And there was some comment -- you make some comment yesterday that, you know, that there's been some comment as to isn't MCT arbitrary? And -- and I think isn't it fair to say that the comment or criticism of MCT is more in the selection of the 100 percent figure as opposed to the MCT itself?

MR. LUKE JOHNSTON: So the 100 percent MCT, if you look at the -- the way the MCT calculation is described, my understanding is experts on measuring these risks did that and determined appropriate risk loads at a certain tolerance level and -- which I believe is 1:100, or it could be in ninety-nine point five (99.5). I'll confirm that.

But similarity to how we do the DCAT, we have to select a risk tolerance. So at the 100 percent level, it's a safer -- safe environment. It's 1:100 level risk. The MCT 100 percent ratio is intended to cover risks at that level.

And when we'd say that the MCT is a solvency test, I interpret that to mean, We're trying to prevent total equity to go to zero, which is the same thing that MPI is trying to do in our DCAT. One hundred (100) percent MCT would appear to be a external measure of the risk of falling to -- the RSR falling to zero at a higher probability level or a -- or a higher risk threshold as determined by external experts on the subject, that being the office of the superintendent of financial institutions.

So I don't think the 100 percent MCT ratio is arbitrary. I think picking something other than that would become arbitrary, because then I don't know anymore what risk tolerance I'm using. The MCT test itself tells me what those risk levels represent, but they -- I don't know what they are at 95 percent MCT, or 60 percent MCT.

MR. ROBERT WATCHMAN: But I think we've -- there's already evidence been provided that different insurers with different risk profiles are using different percentages of MCT.

MR. LUKE JOHNSTON: Every -- yeah. Every insurer would have a different actual MCT except by coincidence. As we've discussed, OSFI has a 150 percent regulatory target. SGI and ICBC, SGI used 100 -- or 100 percent target. ICBC, I believe it's either a hundred or a hundred and forty-five (145). It's a hundred or -- it's more than a hundred. Everybody is using at least 100 percent as far as anybody that I know about in -- in Canada.

MR. ROBERT WATCHMAN: Now getting back to the dynamic capital adequacy testing, for the upper threshold, the threshold that you determined based on testing was 442 million. Is that correct?

MR. LUKE JOHNSTON: That's correct based on the assumptions we used, yes.

MR. ROBERT WATCHMAN: All right. So -- and so the variation in assumptions from the lower threshold was that you used a combined scenario before routine management and regulatory action, still using the 1:40 year probability level, and this time, over a three (3) year time horizon. And that's, again, to test for Basic total equity to remain above the Corporation's proposed lower RR -- RR -- excuse me, RSR target of 201 million. Is that -- is that correct?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: Can you explain why the upper threshold scenario testing was before routine management and regulatory action while the lower is after?

MR. LUKE JOHNSTON: Definitely. So we understand that as this process has evolved, the DCAT is measuring the absolute -- sorry, first -- first off, the DCAT is just giving my opinion about whether MPI's Basic satisfactory condition, a side kind of calculation, and in our DCAT, which is definitely unique, is to say, What's the absolute minimum amount you could have to -- to have satisfactory financial condition?

The absolute minimum is not a desirable place to be, but it's a -- it -- it's a good number for our -- our Board and MPI's board to have as a -- as a -- a point where you need to take action, the action likely being a rebuilding fee. So it is necessary. And so that -- that is that calculation.

The upper target, and -- and the range itself, the -- the range is supposed to be a place where you can handle most financial variability without triggering rebuild fees or having rebates all the time. Most, not all. Sometimes you fall below or -- or sometimes you'll have a few good years in a row and you might need a rebate but that's all we really see is the purpose of the RSR. So something above that absolute minimum.

And then at some point you -- you -- for the upper you get to a point where you don't legitimately need that much RSR. You should rebate it. In our proposal, we've said that a rating cycle is about three (3) years. You know, what's the risk of one (1) in forty (40) over a three (3) year period. That's how we came up with the range. It's a -- it's a proposal we think is appropriate. But we've also included some other options there for consideration.

MR. ROBERT WATCHMAN: Thank you. Now, Diana, if we could -- if we could go to PUB/MPI-2-42. And similar to the manner in which we reviewed the lower threshold on behalf of the Board, the Information Requests, a determination of the upper threshold based upon the iterative model -- modelling approach.

And we did ask to keep -- to see the combined scenario at various probability levels, but including -- both excluding and including routine management and regulatory action. And the request was for a two (2) year time horizon, and testing to keep Basic total equity to remain above 161 million.

And again we explained in the preamble the reason for the iterative approach. In response you've provided a similar reservation as you did with the -- with the previous iterative model that was in IR 2-41. Now, in this instance, if we could turn to Appendix -- sorry, I should have -- I should have asked. Is there anything different in -- in your concerns or...

MR. LUKE JOHNSTON: No, I don't -- I don't need to repeat them, but I will just highlight the one (1) comment that this particular scenario assumes $305 million of transfers from competitive lines, so. Otherwise my comments are the same.

MR. ROBERT WATCHMAN: So, Diana, if I could ask you to turn to Appendix 4b of that Information Request. That should be -- that should be page 2, Appendix B. If you could shrink that. Okay. Okay. So if we go to the bottom line, the total equity balance line.

And we see again, we asked for the two (2) year horizon such that the total equity balance would reduce to 161 millions as of the two (2) year time -- time horizon, which was the 2020 column.

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: That where it's one-sixty-one (161). And if we go back then to the current -- or to the 2018 column, it provides that the upper target would be approximately 315 million.

MR. LUKE JOHNSTON: With all the reservations that I don't need to repeat again, that is the calculation requested in -- in this in this question, three hundred and fifty (350).

MR. ROBERT WATCHMAN: Okay. And just, again, to confirm that. The modelling that you ran was before management and regulatory action?

MR. LUKE JOHNSTON: Correct, with --

MR. ROBERT WATCHMAN: With --

MR. LUKE JOHNSTON: -- the assumed transfer of, I believe, yeah, $305 million.

MR. ROBERT WATCHMAN: And so one (1) of the pre-asks restates our request for modelling after. And I assume that's coming.

MR. LUKE JOHNSTON: Correct. Yes, it is. Yeah.

MR. ROBERT WATCHMAN: And we'll defer any further questioning till next week.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I guess -- maybe just to add on this. So we've looked at two (2) numbers here as -- let's just call it an alternate way to calculate a range. At the end of the day, I would look back to the size of this range and compare it with the financial variability analysis that we did in the DCAT as a way of kind of assessing whether such a range would be big enough or appropriate for MPI. That's -- so I'll just add that -- that piece to that.

MR. ROBERT WATCHMAN: Okay. With that I'm just going to then move on to the final portion about rates, rebates, and rebuilding fees. And also talk a little bit about whether a target range or a single tar -- target might be more appropriate. Diana, if we could go to PUB/MPI-1-68.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And this Information Request asked for the Corporation's proposed rationale to be followed in future GRAs when considering the need for an RSR building fees or rebates, assuming that's an established -- assuming an established Basic total equity target range.

And you indicated in the response that MPI would suggest decisions should consider the current circumstances of Basic, make good business sense, and be in the overall best interests of the public.

Can the Corporation state whether the consideration of the current circumstances of basic in that explanation encompasses only actual financial results for Basic at that time, or whether it would encompass forecasted financial results for Basic at that time?

(BRIEF PAUSE)

MR. PETER YIEN: Maybe I can try this at the high level first. The comment about consider current Basic circumstance, at the time when we finished up the year end we had about 98.5 million in extension reserve with a required of about sixty-seven (67). That gets about thirty-one-point-five (31.5) access. When we look at that the situation that we were in, it's no longer sustainable that we can transfer from another line of business to sustain Basic.

The Board also looked at the balance between having affordable insurance and stability. I guess one could argue that we would need no RSR stabilization reserve if we didn't care about stability, because we could easily just influence rates.

I think the question that we have to ask is, with all the scenarios is to what extent do we want to minimize that rate shock. And so philosophically the Board has chosen what they have, knowing that it's neither sustainable in terms of transfers. Basic, as per our actuary, is not in as satisfactory a financial condition, because it does fall below the minimum calculations.

So the combination of that -- of it really tells us that it does not make good business sense unless -- unless we did that. And then we would then translate into, in the best interest of the public, a rate increase of less than 3 percent.

And perhaps Ward Keith can talk about that tomorrow, based on our customer surveys, that we need to meet the combination of those, and hence that drives the requirement for the rate stabilization reserve, the upper target that we had talked about. So it does consider both current and future ability to transfer.

MR. ROBERT WATCHMAN: Mr. chairman, I see we're after four o'clock. I'm fairly certain we'll be finished before 4:30, if that's -- if we can just continue.

THE CHAIRPERSON: Okay. Let's continue.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Thank you. Now, in response to Information Request 168-B, the Information Request was to discuss the merits of using a Basic target capital range versus using a single Basic target capital level. And in your response you state:

"A range is preferable to a single target capital level because it identifies when rebuilding fees and rebates should be considered."

And you also note:

"A single target capital level would normally require rebates sur -- surcharges each year to balance to the target, which does not promote rate stability preferred by ratepayers."

But would you agree that the balancing to target required for a single target capital level necessarily identifies when rebuilding fees and rebates should be considered?

MR. LUKE JOHNSTON: I think all we're talking about here is if we have a range we can stay in that range and not have any kind of constant rebuild fee or rebate fee, or whatever you want to call it. Whereas, if we have a target capital -- let's say, for example, the target's $200 million, and wherever we are relative to $200 million we're going to move towards that amount and have a rebuilding fee equal to one-fifth (1/5) of the amount that we need. Notice, SGI has something like that. Whether they use it or not all time, I don't --I don't know.

But that would mean we always have a fee. Like, we're either building or rebating some kind of fee in theory, if you're always going to move to the target, like, unless you're right at it. That would seem to add another level of instability to the rate calculation. Our preference would be to have a range that we operate in where no fee at all is required, only in extreme circumstances when you fall out of that -- that range.

MR. PETER YIEN: Maybe if I can add this as well. When we do have a target, we are guaranteeing fluctuations again. And again, it's a philosophical discussion to say, Is it okay if we end up having a situation? And imagine a world where we don't have any substantial rate increases forever and we keep it below 3 percent, but we will rebate it if it goes above the upper RSR limit.

Having a target would also mean that in -- in times of, I guess, when things are good and would -- would it encourage us to do all the right things that we should do, like continually build the rate stabilization reserve. There is -- there's merit to say that the business has a natural fluctuation from year to year which we can't control, and the range is simply to absorb those uncontrollable weather events. And I'll just leave it at that.

MR. ROBERT WATCHMAN: So at what level of rate change -- you've -- you've mentioned the rate change of less than 3 percent. So is that the -- where the Corporation distinguishes rate sta -- stability from rate instability? And is that possibly related to the level used to cap experience adjustments for the vehicle rates?

MR. LUKE JOHNSTON: I didn't hear the

last piece, sorry.

MR. ROBERT WATCHMAN: The question was: At what level does the Corporation -- what level of rate change would the Corporation distinguish rate stability from instability? And is that related to the level used to cap experience adjustments for vehicle rates?

MR. LUKE JOHNSTON: So I'll start by saying, what's assumed in the -- the DCAT report. The -- the DCAT assumes we'll never respond to events with more than 5 percent total rate increase and rebuilding fee, and we'll never have a rebuilding fee -- incremental rebuilding fee in a year of more than 2 percent. That is just an assumption that did come into play, I believe in the '90s with the Public Utilities Board where we had to have rebuilding fees. And the way it was applied was 2 percent, then up to four (4), then up to six (6).

That, I think, is a reasonable assumption in terms of reaction. Obviously if we -- if we want to put in the DCAT if anything bad happens, everyone gets a 15 percent rate increase, then as Mr. Yien said, we wouldn't need a RSR. We'd just increase rates by 15 percent and get all our -- all the money we needed immediately. But that isn't seen as appropriate at all. So the management actions we have in there, I think, are reflective of what we consider -- are considered to be appropriate levels of increases in rebuilding fees.

MR. ROBERT WATCHMAN: Okay. Would it not be possible to impose limits on the process of balancing to a target required for the single target capital level, so as to avoid this rate instability?

MR. PETER YIEN: I think theoretically and practically, we see others have -- are doing that, but it does go back to what is the range that we're operating in. Once we're in the right range and not operating at the minimums that we are talking about, absolutely. You could pick a number over five (5) years and you get to it, or whatever, the number that makes sense. But, yeah, that does moderate the fluctuations by making it step-by-step build back up.

MR. ROBERT WATCHMAN: Okay. And I think you might've anticipated my next question, because the in PUB/MPI-238, we asked whether you could confirm whether Saskatchewan Auto Fund uses the single target rate and describe their process in terms of rebuild and rebate. And that is the PUB/MPI-238, and I believe we have attached to that Information Requests information actually from SGI which talks about their process and -- and the distinction between the capital management provision, sorry, capital maintenance provision and the rebuilding provision.

If we just scroll down to the next page where it talks about the -- a little further down, please, Diana. The capital management, and a little further, please, then we'll get to -- okay. Okay. Just a little bit further and we'll get there. Ah, here we go. And so it appears that the Saskatchewan Ottawa -- Auto Fund uses a one (1)in five (5) either rebuild or rate rebate process so that it would be spread out over five (5) years.

MR. PETER YIEN: Yes.

MR. LUKE JOHNSTON: May -- maybe I'll just add to this. I didn't -- they have a capital management policy. Whether that policy is always followed, I don't know. I -- I don't know. I -- I -- the -- in the -- in their document, it does say that final authority as to what, if any, rate action is to be taken is reserved to that SGI Board of Directors. So it's not -- maybe they follow it right to the word. But maybe they insert some management judgment, just -- just for that -- just to add that.

MR. ROBERT WATCHMAN: Now, Diana, could we go to Exhibit MPI-11, page 17. And this is, Mr. Yien, when you were presenting on -- on Monday and talking about the range. And in the bullet point just before the graphic is that:

"When total equity is in range, there is no ask of ratepayers."

And in your evidence in -- when you were presenting, perhaps we could go to the transcript, Diana, for October the 2nd, page 107. And towards the bottom of that page beginning at line 21. You stated:

"So while it's operating in -- in the range, we are not in a position to ask a -- or ask for a rebuilding of the RSR rate stabilization. We are not asking ratepayers for rate increases."

So just to clarify, when you say you're operating in the range, are you saying you're not asking for rate increases associated with rebuilding or rate increases at all?

MR. PETER YIEN: It is for rebuilding.

MR. ROBERT WATCHMAN: Oh, rebuilding. Okay.

MR. PETER YIEN: Yes.

MR. ROBERT WATCHMAN: So -- so the --

the total capital level would be independent of indications that the approved premiums are deficient?

MR. LUKE JOHNSTON: Yeah, we would expect to apply for accepted actuarial practice rates. We wouldn't -- if -- if AAP said we needed a 5 percent rate increase and we had a -- in the middle of the RSR range we wouldn't say, Forget -- forget about it. Don't apply for the 5 percent. We'd still want to apply for AAP rates under that scenario.

MR. ROBERT WATCHMAN: Okay. So -- so just to be clear, having a -- having a range is still no guarantee against future rate increases if forecasting demonstrates that the approved premiums are deficient?

MR. PETER YIEN: That's correct. And I go back to -- maybe if I can go back to the slide about -- I'm not sure if the one (1) before. We had described what the purpose of our rate stabilization reserve is. Do -- do we have the slide number? I don't want to -- can we just pull it up?

(BRIEF PAUSE)

MR. PETER YIEN: Pardon me. We'll just take a minute just to find the slide.

(BRIEF PAUSE)

MR. PETER YIEN: Why don't we go to RSR-3. Thank you. So essentially, this is the definition that -- and purpose of the RSR that we've adopted, is it talks about the variance from forecasted results to the events and losses arising from nonrecurring events or factors, just to clarify that.

MR. ROBERT WATCHMAN: Thank you very much. Mr. Chairman, subject to further questions on undertakings and pre-asks that completes our questioning.

THE CHAIRPERSON: Thank you very much.

MR. MATTHEW GHIKAS: Mr. Chairman, so, sorry --

THE CHAIRPERSON: So --

MR. MATTHEW GHIKAS: -- before we sign off, I had one (1) more undertaking -- or, sorry, undertaking I could respond to now, if it's okay.

THE CHAIRPERSON: Sure.

MR. MATTHEW GHIKAS: Thank you. So this is in response to Undertaking number 1:

"Please submit the proposal or RFP

for the ALM study."

And this would be MPI Exhibit 14, and as my colleague, Mr. Scarfone, indicated the successful bidder is Mercer Canada. Thank you and we have copies here for circulation.

--- EXHIBIT NO. MPI-14: RFP for ALM study submitted by Mercer Canada

THE CHAIRPERSON: Thank you, sir. Thank you, everyone. We will reconvene at nine o'clock tomorrow morning with Mr. -- sorry, with Mr. Ward Keith. Thank you. Good -- good evening.

--- Upon adjourning at 4:21 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.