MPI 2015 General Rate Application

October 22, 2014

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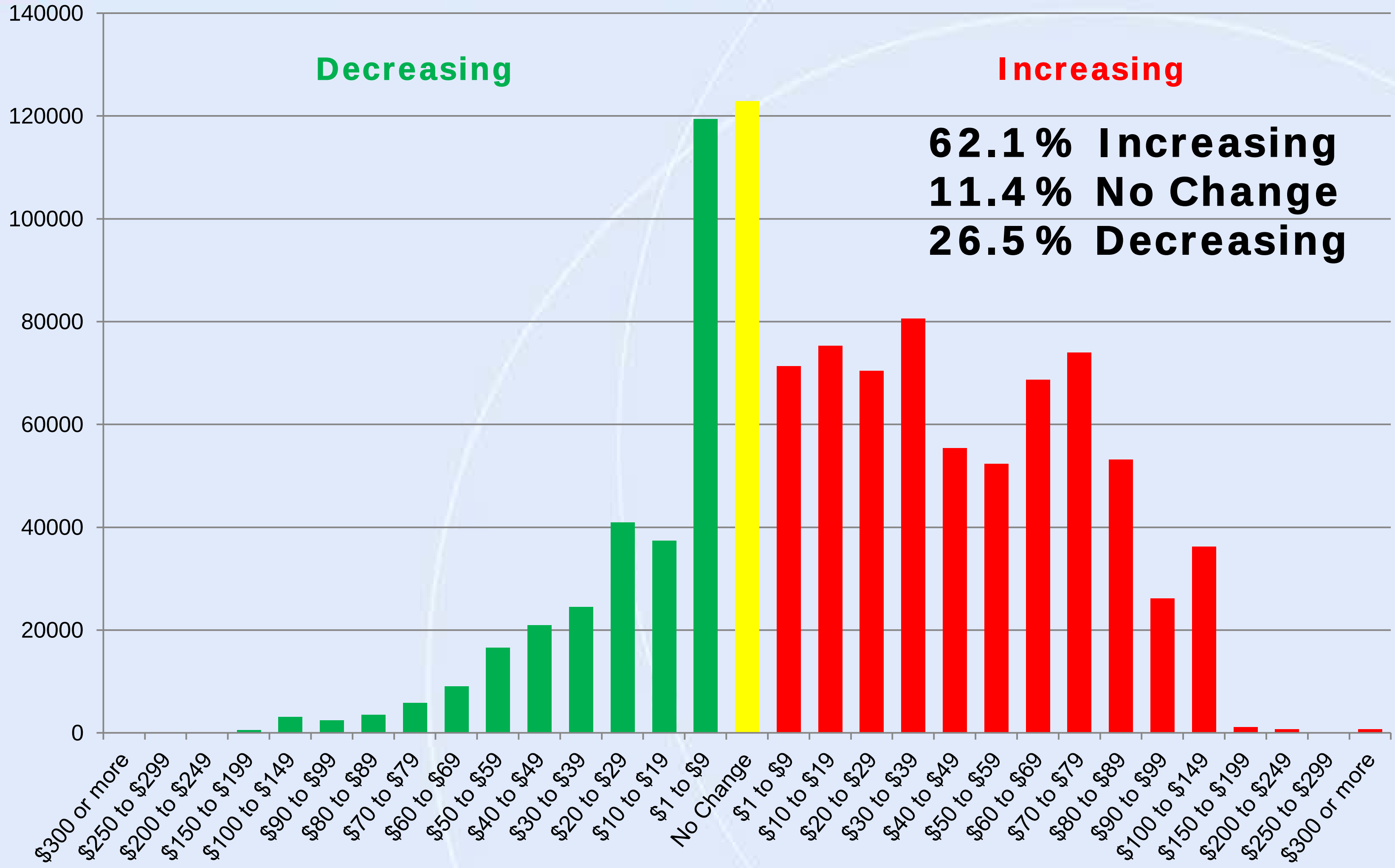
Manitoba Public Insurance

2015 GRA

- A 2.4% rate increase
- An RSR Rebuilding Fee of 1.0%
- A minimum (lower) RSR target of $194 million in retained earnings based on the results of the 2014 DCAT report.
- A minimum (lower) RSR target of $213 million in total equity based on the results of the 2014 DCAT report.
- A range above the recommended minimum RSR target (based on the minimum DCAT amount) with the upper range based on a 100% MCT value ($325 million).

2015 Rate Change including 1% RSR



Rate and Rebate History

Rebates

Year	Total ($millions)	Per cent of premiums
2015		
2014		
2013		
2012		
2011	$336 M	45.0
2010		
2009		
2008	$63M	10.0
2007	$60 M	10.0
2006	$58 M	10.0
2005		
2004		
2003		
2002		
2001	$80M	16.6

Rate Changes

Year	Applied	Order
2015	3.4 (includes 1% RSR)*	
2014	1.8	0.9
2013	0.0	0.0
2012	-6.8	-8.0
2011	-4.0	-4.0
2010	0.0	0.0
2009	-1.0	-1.0
2008	0.0	0.0
2007	-2.6	-2.6
2006	0.0	0.0
2005	0.0	-1.0
2004	2.5	3.7
2003	0.0	-1.0
2002	-1.2	0.0
2001	0.0	0.0

2013/14 RESULTS

2013/14 Results

- ($16M) – 3% more collision and property damage claims
- ($24M) – 10% physical damage severity increase
- ($26M) – increase in injury claims reserves
- ($9M) – increase in loss adjustment expense provision

2013/14 Results

- ($25M) – premium deficiency liability
- ($22M) – capital losses on marketable bonds
- ($10M) - all other unfavourable variances
- $57M – higher than expected gains on sales of equities
- ($75M) - greater loss than forecast

2014/15 UPDATED FORECAST

2014/15 Forecast

- 2014 GRA -2014/15 forecast – ($7.5M)
- 2015 GRA – 2014/15 budget – ($38.0M)
- Deterioration of ($30.5M)

- ($17M) – increase in severity assumptions
- ($9M) – increase in injury claims forecast
- ($4M) – everything else

SECOND QUARTER RESULTS

YTD results six months ended August 31, 2014
in millions of $

	Basic	Budget	Better/ (Worse)
Earned Revenues	414.2	416.5	(2.3)
Net Claims Incurred	348.4	291.1	(57.3)
Claims Expenses (including Loss Prevention/Road Safety)	62.3	64.0	1.7
Expenses - Operating, Commissions, Premium Taxes, Regulatory	65.1	67.0	1.9
Investment/other income	70.2	13.5	56.7
Net income	8.6	7.9	0.7

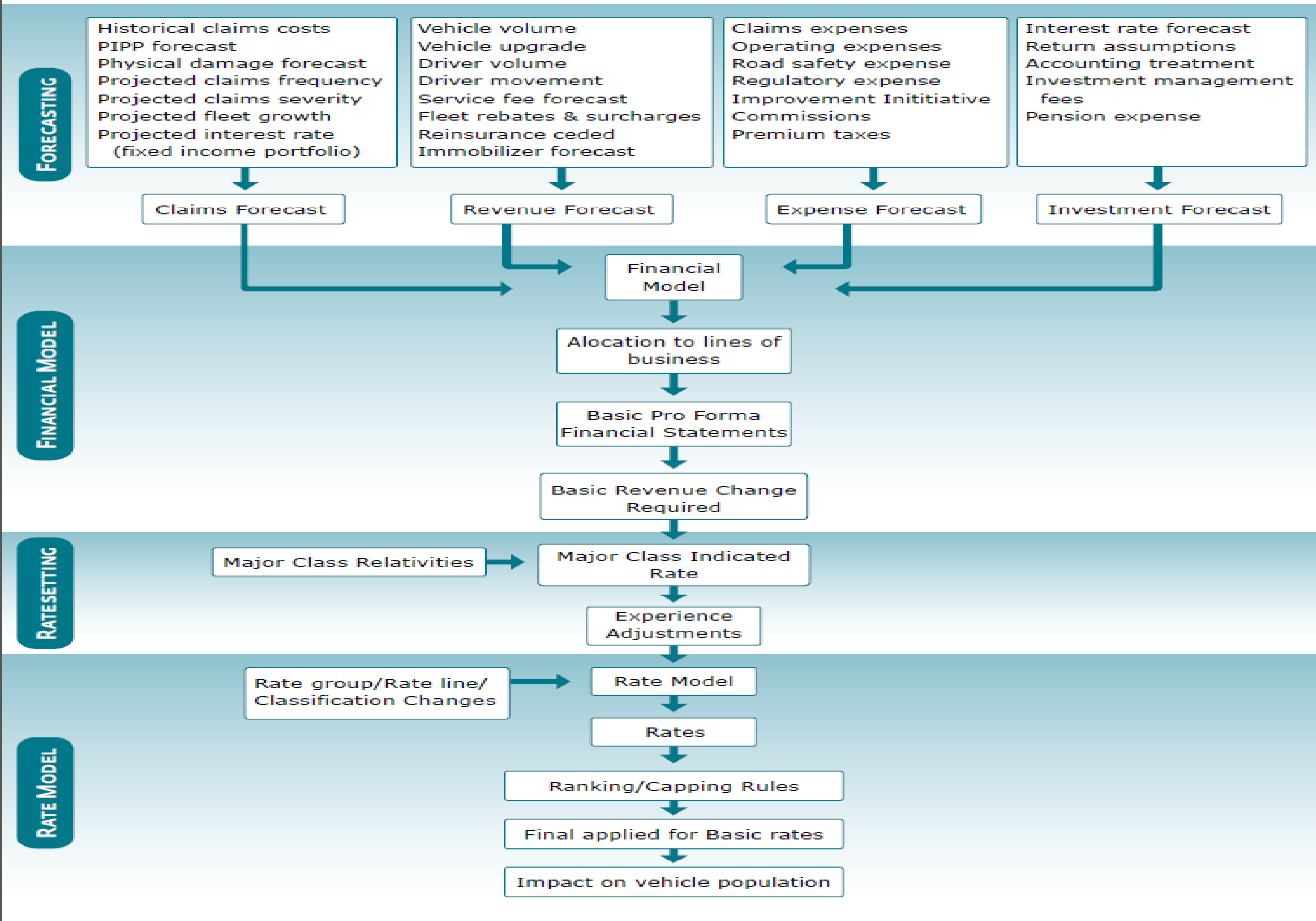
Interest Rate Impact – Basic

in millions of $

	Actual	Budget	B / (W)
Gains(losses) on Mktble Bonds	30.6	(31.9)	62.5
Basic Allocation	83.7%	83.9%	
Basic Share	25.6	(26.8)	52.4
(Increase)/Decrease to Claims due to Discount Rate Changes	(26.6)	39.9	(66.5)
Net Impact	(1.0)	13.1	(14.1)

2015/16 INDICATED RATES

Rate Setting Framework

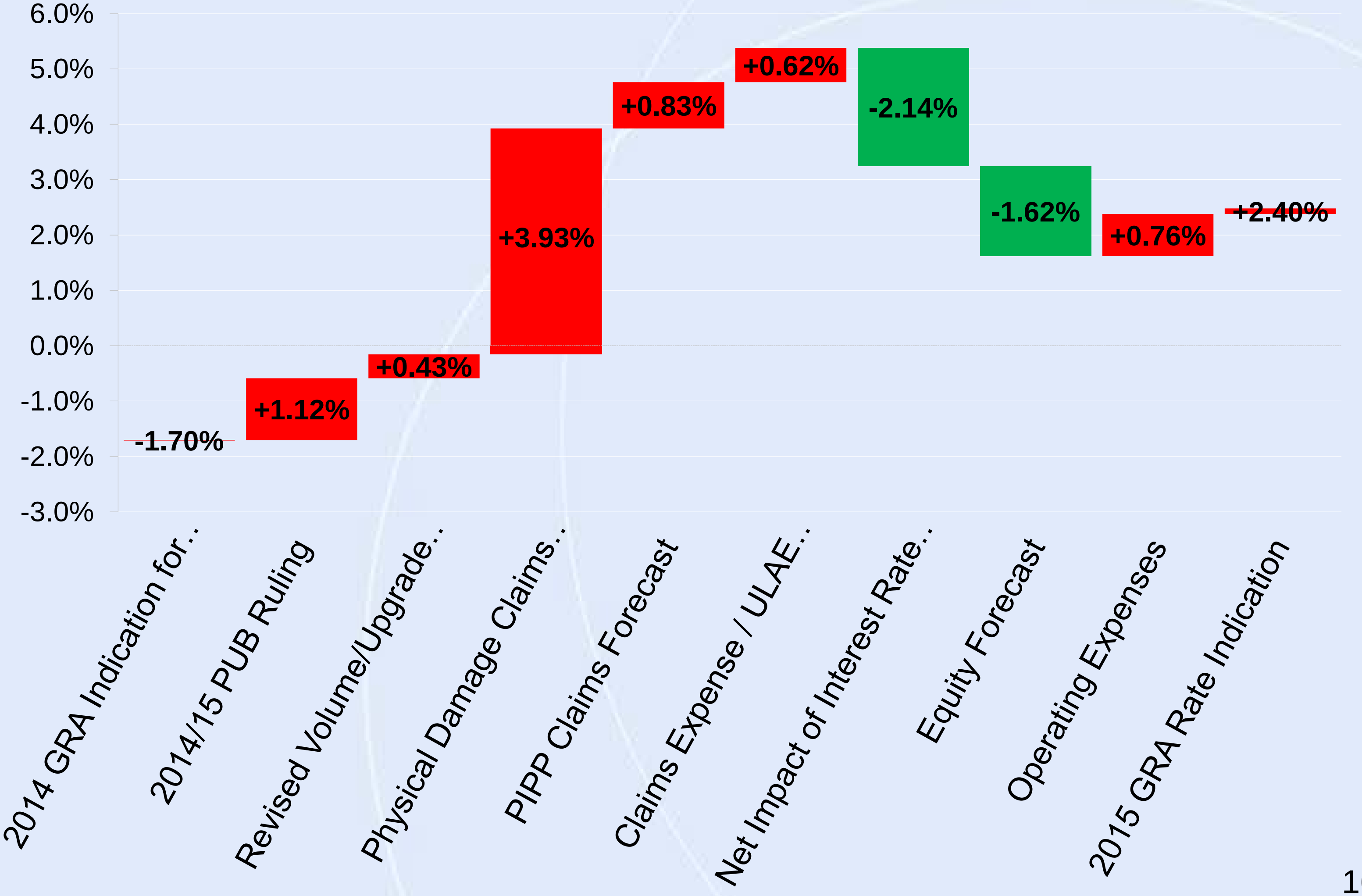


2015/16 Rating Period Forecast
2015 GRA versus 2014 GRA (M’s)

	2015GRA	2014GRA	Difference
Earned Revenues	$888.7	$901.6	($12.9)
Claim Costs	$832.6	$795.8	$36.7
Expenses	$141.2	$136.1	$5.0
Investment Income	$69.1	$41.7	$27.4
Net Income (Loss)	($15.9)	$11.3	($27.2)

The 2015/16 indicated break even rate change deteriorated from a 1.7% rate *decrease* (2014 GRA) to a 2.4% rate *increase* (2015 GRA) over the past year.

Components of the 2015/16 Rate Indication
2014 GRA vs 2015 GRA



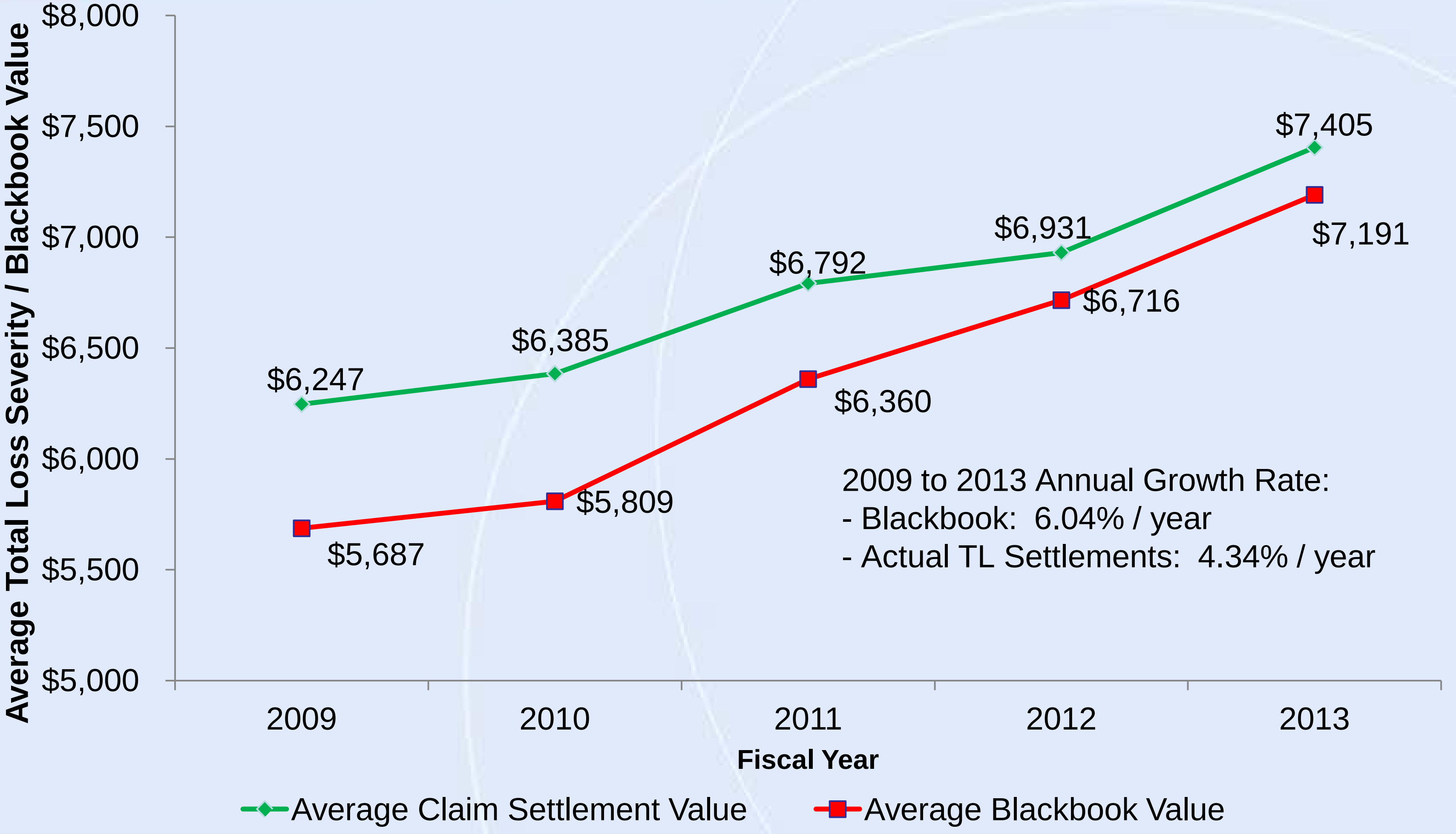
Impact of 2014 PUB Order on 2015/16 Rate Indication

- The Corporation’s 2014/15 break-even rate indication was 1.8%.
- The PUB ordered a rate increase of 0.9%.
- Impact of 2014 PUB order on 2015/16 break-even net income = ($7.4M)
- Proportion of total 2.4% rate requirement = ($7.4M)/ ($15.9M) x 2.4% = 1.1%

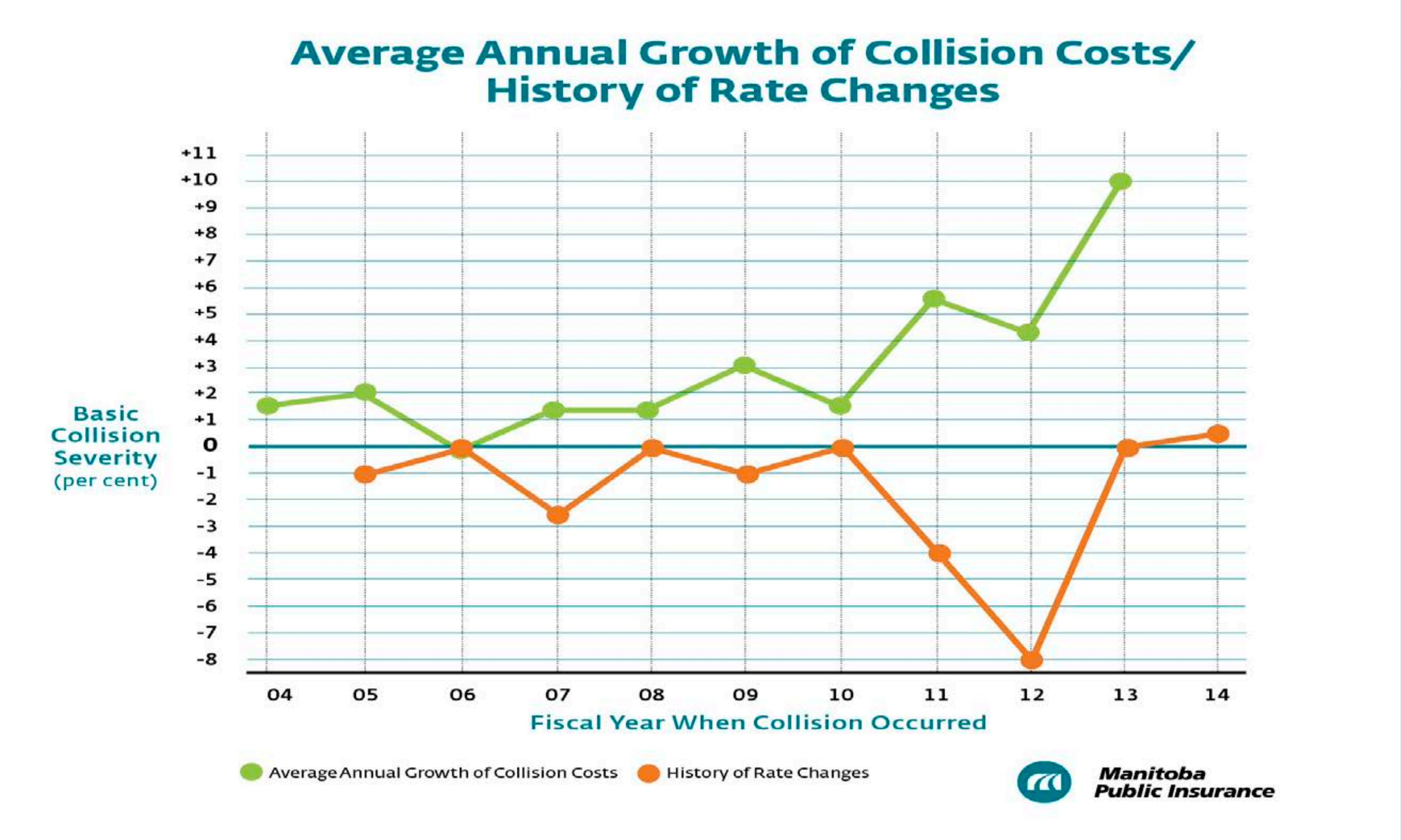
Collision Severity @ 12 Months

Accident Year	Repair Severity	% Change	Total Loss Severity	% Change	Total Severity	% Change
2004/05	$1,580		$4,409		2,069	
2005/06	$1,649	4.40%	$4,746	7.60%	2,181	5.41%
2006/07	$1,673	1.50%	$4,790	0.90%	2,213	1.49%
2007/08	$1,661	-0.80%	$4,935	3.00%	2,233	0.89%
2008/09	$1,702	2.50%	$4,933	0.00%	2,277	1.94%
2009/10	$1,747	2.60%	$4,903	-0.60%	2,328	2.24%
2010/11	$1,800	3.10%	$4,940	0.80%	2,392	2.79%
2011/12	$1,864	3.50%	$5,069	2.60%	2,479	3.60%
2012/13	$1,938	4.00%	$5,316	4.90%	2,579	4.07%
2013/14	$2,085	7.60%	$5,831	9.70%	2,842	10.17%
Straight Average						
3 year	1,962	5.00%	5,405	5.70%	2,633	5.95%
5 year	1,887	4.20%	5,212	3.50%	2,524	4.57%
10 year	1,770	3.20%	4,987	3.20%	2,359	3.62%

Comparison of Average Blackbook Values versus Actual Average Total Loss Claim Settlements



Collision Severity Growth vs Rate Changes



Impact of Revised Physical Damage Forecast on 2015/16 Rate Indication

- The physical damage incurred forecast increased by $26M in the 2015/16 rating period. The majority of the increase is attributable to the significant and unexpected 10% severity increase in 2013/14.
- The remaining portion is attributable to an increase in the Corporation's forecasted severity growth trend rate.
- Proportion of total 2.4% rate requirement = ($26.2M)/ ($15.9M) x 2.4% = 3.9%

PIPP Reserve Review

- 2012/13: Chief Actuary identifies changes in development patterns on injury claims. Paid losses and open claims counts trending higher; case reserves trending much lower. $30M+ in IBNR added to estimates.
- 2013/14: Injury Claims Management conducts full review of all open injury claims. More case reserves are added than expected in the forecast ($57M more than budget).

Impact of PIPP Forecast on 2015/16 Rate Indication

- The PIPP forecast was revised upward by approximately $5.5M / year, mainly as a result of the PIPP claims review.
- Proportion of total 2.4% rate requirement = ($5.5M)/ ($15.9M) x 2.4% = 0.8%

Equity Return Assumption Impact on 2015/16 Rate Indication

- The assumed total return on Canadian and U.S. equities was increased from 6.2% per year in the 2014 GRA to 7.3% per year in the 2015 GRA.
- This change was the main reason for the approximately $10.6M *improvement* in realized equity gains over the rating period compared to last year's forecast.
- Proportion of total 2.4% rate requirement = $10.6M/ ($15.9M) x 2.4% = (1.6)% (favourable)

Interest Rates

- This year's interest rate forecast has a greater net benefit to net income than last year's forecast.

Interest Rate Impacts ($millions)

2015 GRA	**2015/16**	**2016/17**
Claims Incurred	($51.2)	($39.7)
Investment Income	($42.4)	($24.5)
Net Income Impact	$8.8	$15.3

2014 GRA	**2015/16**	**2016/17**
Claims Incurred	($36.0)	($53.6)
Investment Income	($39.3)	($55.2)
Net Income Impact	($3.3)	($1.6)

	2015/16	**2016/17**
Change in Net Income	$12.1	$16.9

Interest Rate Forecast
Impact on 2015/16 Rate Indication

- It is the *change in interest rates* during the rating period, not the absolute value of interest rates, that causes market value changes to assets and liabilities.
- During the 2015/16 rating period, interest rates increase by 98 basis points in the 2015 GRA versus 89 basis points in the 2014 GRA.
- Average improvement in net income over the rating period from the revised interest rate forecast = $14.5M
- Proportion of total 2.4% rate requirement = $14.5M/ ($15.9M) x 2.4% = (2.1)% (favourable)

EXPENSES

Expenses

- Total expenses 2015 rating period - $214.1M, 2014 rating period - $206.7M
- Difference – $7.4M
- $4.0M of this increase is due to an increase in the overall expense allocation to Basic due to higher claims incurred in 2013/14
- The balance is due to the mix of improvement initiatives

EXPENSES

- Normal operating
- Improvement Initiatives – Implementation Expenses
- Improvement Initiatives – Ongoing Expenses
  - Amortization
  - Depreciation
  - Other

Normal Operating Expenses
Basic Share

($millions)	2012/13 (restated)	2013/14	2014/15	2015/16	2016/17
Compensation	108	112.2	115	121.1	125.5
Data Processing	13.1	14.2	16.2	16.6	16.9
Other	45.5	49.1	48.4	49.2	50.7
Subtotal	166.7	175.5	179.6	186.9	193.1
Amortization / Depreciation	12.8	12.8	16.6	11.9	9.7
Total Normal Operating Expenses	179.5	188.4	196.2	198.8	202.8
% Increase / (Decrease)	-0.21%	2.19%	4.19%	1.31%	2.00%

EXPENSES

- Normal Operating Expenses are not the key driver in the rate increase request.
- The basic average normal operating expenses forecasted in the rating years (2015/16 and 2016/17) is $200.8 million.
- This represents an increase of 1.3% and 2.0% respectively
- These year over year increases are at or below forecasted CPI of 2.0%.

EXPENSES

- MPI is containing overall increases in normal operating expenses despite contractual commitments for salary increases of 4.5%.

Compensation Expenses Basic Share

($millions)	2012/13 (restated)	2013/14	2014/15	2015/16	2016/17
Gross Salaries	123.4	124.5	128.1	134.1	139.4
Vacancy Allowance	-5.2	-4.9	-6.0	-6.3	-6.5
Overtime	2.3	3.0	2.2	2.3	2.4
Benefits	27.8	27.5	27.9	28.8	30.0
H & E Tax	2.5	2.5	2.7	2.8	2.9
Total Compensation Expenses	150.9	152.8	154.8	161.8	168.3
Basic Allocation %	**71.55%**	**73.48%**	**74.28%**	**74.84%**	**74.59%**
Total Compensation Expenses Basic Share	**108.0**	**112.2**	**115.0**	**121.1**	**125.5**
% Increase / (Decrease)	-0.86%	3.93%	2.46%	5.27%	3.66%

COMPENSATION

- Why does compensation expense fluctuate?
- Four Main Reasons:
  - General Wage Increases – negotiated
  - Changes in the number of staff employed
  - Changes due to movement on scale – increased experience in current job
  - Job classification changes – change in mix of staff
  - Change in benefits (both cost and type)

COMPENSATION

- General Wage Increase – negotiated based on mandate provided by Compensation Committee of Cabinet, Province of Manitoba
- Last contract – September 2012 – September 2016
  - 0%, 0%, 2.75%, 2.75%
- Steps on scale - 3.5% (imbedded in Union contract) estimated at 50% or 1.75%

COMPENSATION

In the last four years (2009/10 to 2013/14) cumulative increase due to:

	Four-Year Total $millions	Average Annual $millions	Compounded Annual % Increase
GWI	7.6	1.9	1.8
# of staff employed	8.0	2.0	1.9
Movement on scale	-2.2	-0.5	-0.5
Benefits	5.3	1.3	5.5
TOTAL	18.7	4.7	3.6

COMPENSATION

- The next three years 2014/15 to 2016/17

	3 Years Total $ millions	Annual Average $millions	Compounded Annual % Increase
GWI	8.1	2.7	2.2
# of staff employed	-2.1	-0.7	-0.6
Movement on scale	5.7	1.9	1.6
Benefits	3.8	1.3	3.7
TOTAL	15.5	5.2	3.3

Other Expenses

- Non compensation expenses and excluding depreciation and amortization
- In the rating years are forecasted to increase 1.8% and 2.7%
- The only reason they are forecasted to increase by more than inflation in 16/17 is due to an equipment refresh which occurs every 3-4 years
- Represents 1.2% almost half of the overall increase in 16/17

Improvement Initiative Expenses

- There are two components of expense related to improvement initiatives:
  - Implementation expense
  - Ongoing expense (after implementation)
    - Amortization of deferred expenses
    - Depreciation of capital expenditures
    - Other (maintenance)

Improvement Initiative Expenses Basic Share ($millions)

$millions	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Implementation Expenses	6.4	5.1	5.5	6.1	7.8
Ongoing Expenses	2.8	5.7	2.7	4.1	8.4
Total Improvement Initiative Expenses	**9.3**	**10.8**	**8.2**	**10.3**	**16.2**
% Increase / (Decrease)		15.8%	-24.0%	25.8%	57.6%

Capitalized Costs ($millions)

$millions	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Deferred Expenses	19	8.8	5.4	14.9	24.1	25.3	20.1	15.8
Capital Expenditures	0.5	0.2	0	1	0	0.5	0.7	0.9
TOTAL	19.5	9	5.4	15.9	24.1	25.8	20.8	16.7

Deferred Expenses are amortized over 5 years once the project is complete.
Capital expenditures are depreciated over 3 years starting at a ½ year in the year acquired.
When the Physical Damage Reengineering project is complete there will be a significant increase in Deferred Expense Amortization.

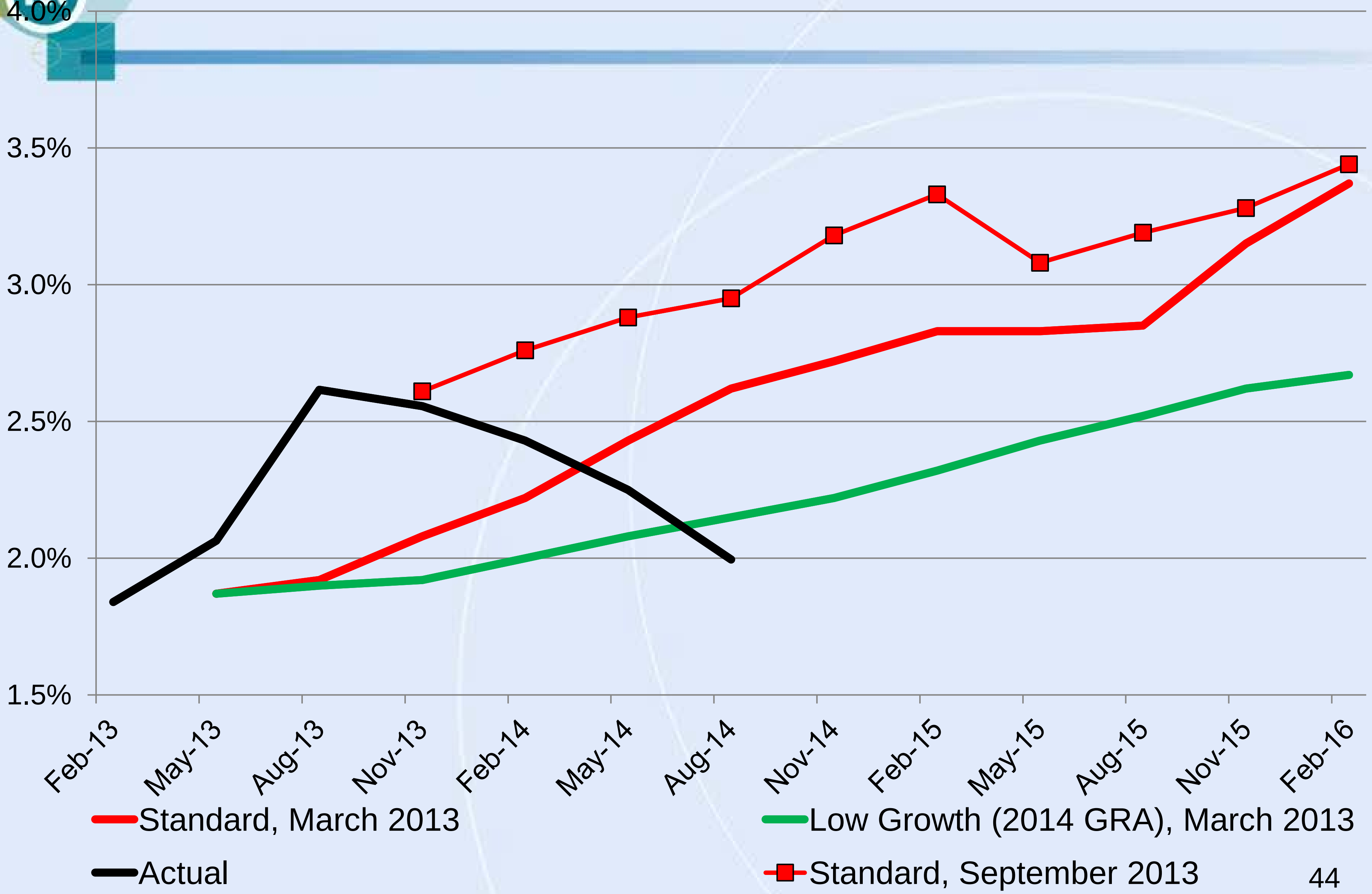
INVESTMENT INCOME

Basic Investment Income

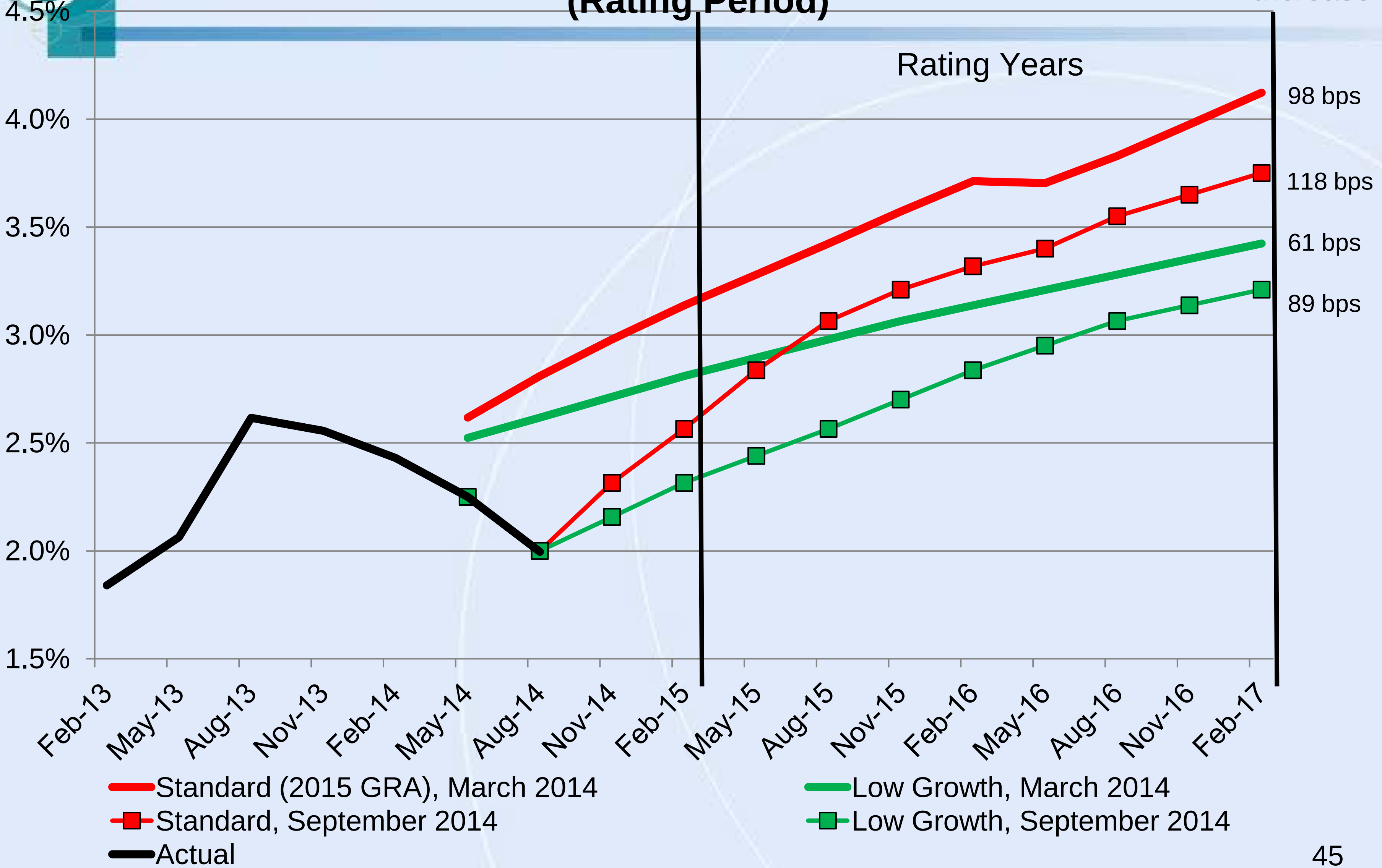
	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
TOTAL	3.7	84.1	83.8	101.1	68.1	147.7	28.8	49.9	84.6

- Real and forecasted volatility in investment income
- 2013/14 high investment income – 2 main reasons:
  - Forecasted sale of U.S. equities generated gain of $58.1 million.
  - A required rebalancing of Canadian Equities netted $57.4 million.
- Forecasted negative impact of rising interest rates on investment income diminishes in subsequent years (from 2014/15 to 2016/17).
- 2016/17 – Canadian equities rebalance resulting in approximately $13 million increase .

2014 GRA
Actual/Forecasted GoC 10 Year Bond Rate until 2015/16 (Rating Period)



2015 GRA
Actual/Forecasted GoC 10 Year Bond Rate until 2016/17 (Rating Period)



INTEREST RATES

- Up until last year MPI did not forecast the impact of interest rate changes in its financial forecast
- In a rising interest rate environment – if duration of assets is less than liabilities (negative duration gap), there will be a positive impact to net income
- Impact of interest rate changes is smaller this year compared to last year
  - Decreased the forecasted duration gap from -1.8 years (2014 GRA) to -1.0 years (2015 GRA).

RATE STABILIZATION RESERVE (RSR)

RSR: Purpose

- The purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

DCAT – What is it?

" A tool to examine the effects of adverse scenarios on an insurer's forecasted capital adequacy"

- Canadian Institute of Actuaries, Standard of Practice

Why use DCAT for determining the lower RSR target?

- Follows Actuarial Standards of Practice and Best Practices
- Risks reflect those of the Basic program
- Management and Regulatory Actions reflect Manitoba situation i.e. “Made-in-Manitoba scenarios”
- Flexibility e.g. Risk tolerance adjusted to meet both the desired target of the Regulator, while still complying with actuarial standards (currently using 1-in-40).
- Improved understanding of key risks for MPI and the Board
- Transparent (MPI DCAT)
- Collaborative (MPI DCAT)

Retained Earnings (RSR) Target or Total Equity Target?

- RSR is currently utilized as the basis for determining Basic capital requirements.
- There has been debate over whether Accumulated Other Comprehensive Income (AOCI) should be included in this measure. RSR + AOCI = Total Equity
- Appointed Actuary has recommended that AOCI be included to meet Actuarial Standards.
- Since the RSR is the current method, the Corporation provided recommended capital targets based on both RSR and Total Equity.
- The Corporation's preference is to use a Total Equity target.

Minimum Capital Test

- Developed by Office of the Superintendent of Financial Institutions
- Capital requirements determined by applying risk factors to balance sheet items (e.g. claim liabilities by coverage; different asset categories)
- Standardized approach. Allows fair comparisons between insurers.
- Capital Available / Capital Required = MCT Ratio

Why 100% MCT for upper RSR target?

- Objective measure that is independent of the assumptions used in the ‘made-in-Manitoba’ DCAT.
- Directly comparable to other insurers
- Used by other public insurers (SGI, ICBC)
- Proposed as an <u>upper</u> capital target only (‘made-in-Manitoba’ DCAT is still the basis for the minimum capital target)
- Significantly lower than the 150% MCT private sector <u>minimum</u> supervisory target and the average 225% MCT of the industry.

DCAT Technical Conference Part 1: April 2013

- Follow Actuarial Standards of Practice ✓
- Include Balance Sheets ✓
- Provide improved disclosure and reconciliation of assumptions/calculations ✓
- Provide results at multiple risk tolerance levels (e.g. 1-in-20, 1-in-40, 1-in-100) ✓
- Provide results over multiple time periods (1 to 4 years) ✓
- Calculate results including the impact of interest rates ✓
- Provide results with and without management action ✓

DCAT Technical Conference Part 2: April 2014

- Standardized financial model output for each adverse scenario ✓
- Improved understanding of financial model through Technical Conference discussions and ‘offline’ discussions between MPI/PUB/CAC actuaries ✓
- Include projected MCT ratios in the financial model ✓
- Chief Actuary to evaluate the ‘financial condition’ of Basic Autopac based on Total Equity rather than only on the RSR balance (i.e. include AOCI in the evaluation) ✓

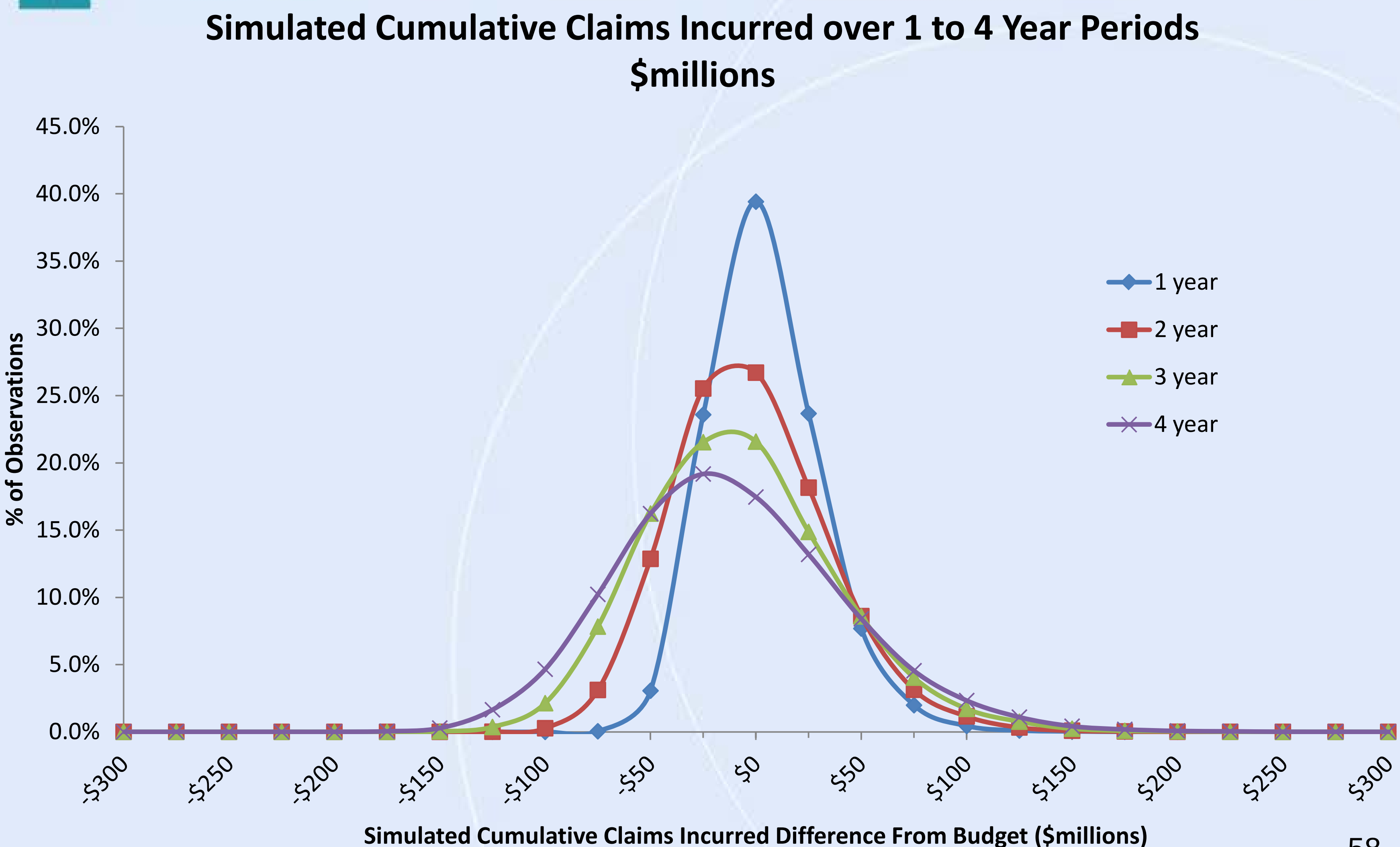
2014 DCAT: Four Key Risk Areas

- Declining or Sustained Low Interest Rates
- Declines in Equity Asset Values
- Claims Incurred over Budget
- Combined Adverse Interest Rate, Equity Returns, and Claims scenarios.
- Other scenarios tested that were not in the top 4 risk areas:
  - Inflation
  - Underestimation of claim liabilities (excluding impact of interest rates)
  - Declines in other asset categories (e.g. real estate)
  - IFRS impacts

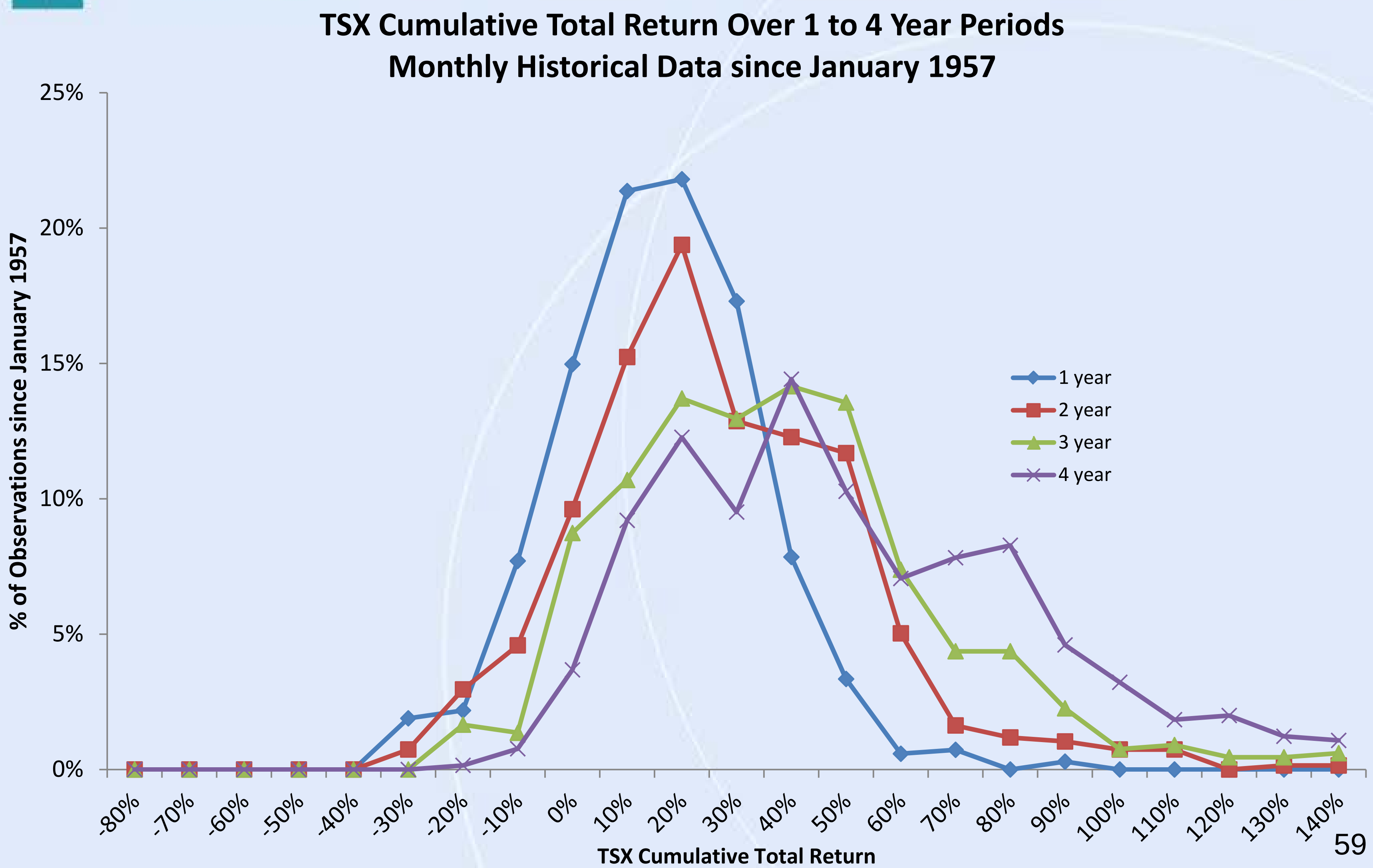
Plausible Adverse Scenarios

- Credible
  - The key risk models are all built on large samples of relevant historical data
- Stable
  - Because the models rely on historical data, the results should not change significantly from year-to-year (assuming no significant change in the risk profile of Basic)
- Collaborative
  - MPI has shown genuine interest to collaborate with stakeholders
  - Scenarios have been improved based on feedback
- Management Action
  - Reflects the Manitoba situation
- Transparent
  - MPI has provided significant amounts of information in support of the financial and actuarial models

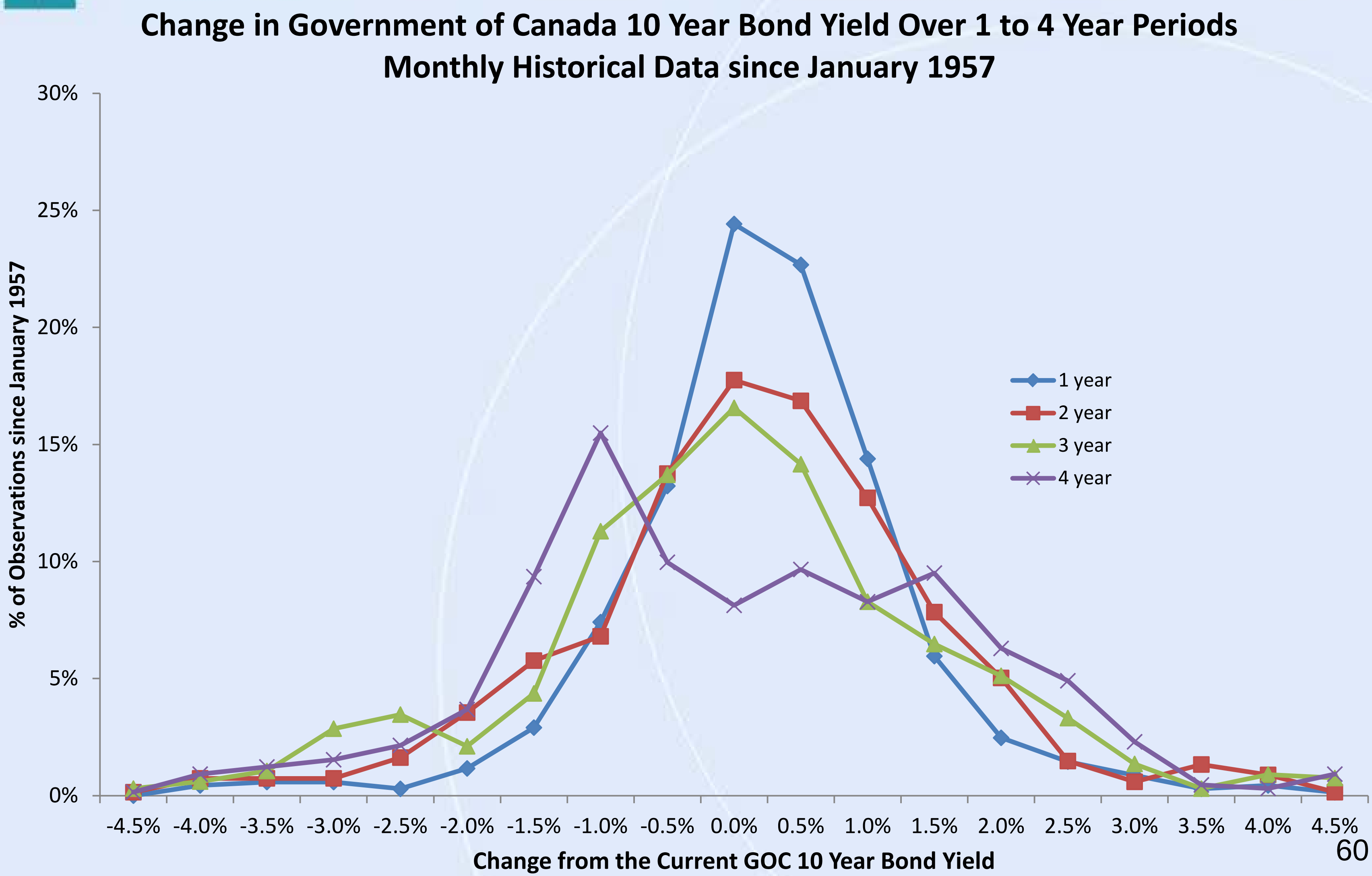
Claims Incurred Model



Equity Return Model



Interest Rate Model



Results without Management Action

DCAT Adverse Scenarios before Management Action:
RSR (in $millions)
1-in-40 Year Risk Level

	2015/16	2016/17	2017/18	2018/19
Combined Scenario	($17)	($83)	($153)	($221)
Interest Rates	($15)	($85)	($126)	($179)
Equity Decline	$72	$72	$85	$72
High Loss Ratio	$10	$0	$72	$29
DCAT Base Forecast	$80	$91	$131	$153

Management and Regulatory Action: Assumptions

- **Base Forecast:**
  - The 1% RSR rebuilding fee will remain in place for the entire forecast period
  - No capital transfers from other lines of business
- **Rate Increases:**
  - All forecasts are restated at the end of each year to determine the break-even rate requirement for the next GRA. The Corporation will apply for this rate increase and the PUB will approve it.
- **RSR Rebuilding Fees:**
  - Our maximum combined rate increase and RSR rebuilding fee in any GRA is 5.0%.
- **Capital Transfers:**
  - The risks for the Basic program do not change in the presence of possible capital transfers. If a capital transfer from competitive lines is considered, it will increase the speed at which MPI rebuilds Basic capital, but it will not change the Basic capital target.

Combined Scenario Results after Management Action

Assumed Management and Regulatory Action:
4 year, 1-in-40 Combined Scenario

GRA	Additional RSR Rebuilding Fee	Rate Change
2015/16	1.0%	2.4%
2016/17	5.0%	0.0%
2017/18	2.0%	2.0%
2018/19	2.0%	0.0%

Impact of Assumed Management and Regulatory Action:
4 year, 1-in-40 Combined Scenario

	Ending RSR Balance		
Fiscal Year	Before Management Action	After Management Action	Impact of Management Action
2015/16	($17)	($17)	$0
2016/17	($83)	($53)	$30
2017/18	($151)	($58)	$93
2018/19	($219)	($38)	$181

Combined Scenario Results after Management Action

Impacts to Retained Earnings and Total Equity from the 4 year, 1-in-40 year Combined Scenario relative to the Base Forecast (in $millions)

	2015/16	**2016/17**	**2017/18**	**2018/19**
Base: Retained Earnings	$80	$91	$131	$153
Base: Total Equity	$158	$177	$212	$229
DCAT: Retained Earnings	($15)	($54)	**($60)**	($40)
DCAT: Total Equity	$50	$7	**($1)**	$17
Impact: Retained Earnings	($95)	($145)	($191)	**($194)**
Impact: Total Equity	($108)	($169)	**($213)**	($212)

MCT Results

- As calculated by the MCT Test as of Feb 28, 2014:
  - Capital Available = $135M
  - Capital Required = $325M
  - MCT Ratio = 42%
  - Implied MCT Ratio for MPI’s proposed lower RSR Total Equity target of $213M = 65%