

Undertaking # 23

MPI to file updated set of pro formas in the form at the answer to Pre-Ask 5(b), maintaining rate increase and RSR rebuilding fee and 2 percent October 2014 standard average interest rate throughout the forecast period.

RESPONSE:

The pro formas are attached.

The tables below summarize the differences between using a flat 2% interest rate assumption (Undertaking #23) relative to using the standard interest rate forecasting methodology (Pre-Ask 5(b)). The assumption of a flat 2% interest rate reduces net income by a cumulative \$240 million over the forecast period, while the impact during the rating period is an average reduction in net income of \$40 million per year. The total implied 2015/16 required rate increase is in excess of 8.0%, which includes the 3.4% rate increase in the rating year.

Pre-Ask 5 - 3.4% rate increase (no RSR Rebuilding Fee) & Oct. Std. interest rate forecast

	2014/15	2015/16	2016/17	2017/18	2018/19
Earned Revenues	\$820	\$886	\$942	\$987	\$1,033
Total Claims Costs	\$842	\$768	\$875	\$849	\$978
Expenses	\$135	\$139	\$147	\$151	\$161
Investment Income	\$74	\$24	\$74	\$64	\$124
Net Income	(\$82)	\$2	(\$6)	\$50	\$19
Retained Earnings	\$17	\$19	\$14	\$64	\$83
Total Equity	\$88	\$97	\$99	\$144	\$158

Undertaking 23 -3.4% rate increase (no RSR Rebuilding Fee) & 2.0% Flat GoC 10 Year Bond Yield

	2014/15	2015/16	2016/17	2017/18	2018/19
Earned Revenues	\$820	\$886	\$942	\$987	\$1,033
Total Claims Costs	\$896	\$866	\$913	\$949	\$1,010
Expenses	\$135	\$139	\$147	\$152	\$161
Investment Income	\$107	\$75	\$79	\$83	\$98
Net Income	(\$103)	(\$45)	(\$38)	(\$31)	(\$39)
Retained Earnings	(\$3)	(\$49)	(\$87)	(\$118)	(\$157)
Total Equity	\$68	\$29	(\$1)	(\$23)	(\$65)

Undertaking 23 minus Pre-Ask 5

	2014/15	2015/16	2016/17	2017/18	2018/19
Earned Revenues	\$0	\$0	\$0	\$0	\$0
Total Claims Costs	\$54	\$98	\$37	\$100	\$32
Expenses	\$0	\$0	\$0	\$0	\$1
Investment Income	\$33	\$51	\$5	\$20	(\$26)
Net Income	(\$21)	(\$47)	(\$32)	(\$81)	(\$59)
Retained Earnings	(\$21)	(\$68)	(\$101)	(\$181)	(\$240)
Total Equity	(\$21)	(\$68)	(\$101)	(\$167)	(\$223)

The table below shows the assumed interest rates in each scenario:

**Government of Canada 10 Year Bond Rate
Scenarios**

Calendar Quarterly Forecast Applied to MPI Fiscal Quarter	Undertaking 23	Pre-Ask 5 b)	Difference
Q1 2014/15	2.25%	2.25%	0.00%
Q2 2014/15	2.00%	2.00%	0.00%
Q3 2014/15	2.00%	2.17%	-0.17%
Q4 2014/15	2.00%	2.39%	-0.39%
Q1 2015/16	2.00%	2.64%	-0.64%
Q2 2015/16	2.00%	2.88%	-0.88%
Q3 2015/16	2.00%	3.06%	-1.06%
Q4 2015/16	2.00%	3.20%	-1.20%
Q1 2016/17	2.00%	3.21%	-1.21%
Q2 2016/17	2.00%	3.27%	-1.27%
Q3 2016/17	2.00%	3.37%	-1.37%
Q4 2016/17	2.00%	3.47%	-1.47%
Q1 2017/18	2.00%	4.03%	-2.03%
Q2 2017/18	2.00%	4.20%	-2.20%
Q3 2017/18	2.00%	4.33%	-2.33%
Q4 2017/18	2.00%	4.38%	-2.38%
Q1 2018/19	2.00%	4.38%	-2.38%
Q2 2018/19	2.00%	4.38%	-2.38%
Q3 2018/19	2.00%	4.38%	-2.38%
Q4 2018/19	2.00%	4.38%	-2.38%

Highlighted interest rates (Q1 & Q2 2014) are actual GoC 10 year bond yields at the end of MPI's fiscal quarters

The actual yield on the GoC 10 Year Bond at October 29, 2014 was 2.06%

Manitoba Public Insurance Statement of Retained Earnings

Scenario based on 3.4% rate increase (no RSR Rebuilding Fee) & 2.0% Flat GoC 10 Year Bond Yield over Forecast Period

(C\$ 000s, except where noted)

	<i>For the Years Ended February,</i>							
	<u>2012A</u>	<u>2013A</u>	<u>2014A</u>	<u>2015P</u>	<u>2016P</u>	<u>2017P</u>	<u>2018P</u>	<u>2019P</u>
RATE STABILIZATION RESERVE (RSR)		Restated						
Basic Insurance Rate Stabilization Reserve								
Beginning Balance	140,525	155,700	149,800	99,876	(3,389)	(48,548)	(86,974)	(117,668)
Transfer from Basic Retained Earnings	15,175	-	(49,924)	(103,265)	(45,159)	(38,426)	(30,694)	(39,433)
Transfer to Basic Retained Earnings	-	(5,900)	-	-	-	-	-	-
Ending Balance	155,700	149,800	99,876	(3,389)	(48,548)	(86,974)	(117,668)	(157,101)
Minimum RSR based on PUB rules	77,000	77,900	77,900	82,300	89,000	93,200	97,600	102,100
Maximum RSR based on PUB rules	154,000	149,800	155,700	164,300	177,700	186,100	194,700	203,600
MPI RSR Target	210,000	200,000	200,000	172,000	172,000	172,000	172,000	172,000
Retained Earnings								
Beginning Balance	-	57,983	19,239	-	-	-	-	-
Restatement of Beginning Balance		18,460						
Restated Beginning Balance		76,443						
Net Income (Loss) from annual operations	22,278	(63,104)	(69,163)	(103,265)	(45,159)	(38,426)	(30,694)	(39,433)
Retained Earnings Prior to Transfers	22,278	13,339	(49,924)	(103,265)	(45,159)	(38,426)	(30,694)	(39,433)
Transfer to Rate Stabilization Reserve	(15,175)	-	49,924	103,265	45,159	38,426	30,694	39,433
Transfer from Rate Stabilization Reserve	-	5,900	-	-	-	-	-	-
Transfer from Immobilizer Incentive Fund	-	-	-	-	-	-	-	-
Transfer (to) from IT Optimization Fund	65,000	-	-	-	-	-	-	-
Premium Rebate	(14,120)	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Balance of Fund	57,983	19,239	-	-	-	-	-	-
IT Optimization Fund								
Beginning Balance	65,000	-	-	-	-	-	-	-
Transfer to Basic Retained Earnings	(65,000)	-	-	-	-	-	-	-
Balance of Fund	-	-	-	-	-	-	-	-
Immobilizer Incentive Fund								
Beginning Balance	-	-	-	-	-	-	-	-
Transfer to Basic Retained Earnings	-	-	-	-	-	-	-	-
Balance of Fund	-	-	-	-	-	-	-	-
Total Basic Retained Earnings	\$ 213,683	\$ 169,039	\$ 99,876	\$ (3,389)	\$ (48,548)	\$ (86,974)	\$ (117,668)	\$ (157,101)

Manitoba Public Insurance Multi-year Statements - Underwriting Income

**Scenario based on 3.4% rate increase (no RSR Rebuilding Fee) & 2.0% Flat GoC 10 Year Bond Yield
over Forecast Period**

(C\$ 000s, except where noted)

For the Years Ended February,

	2012A	2013A	2014A	2015P	2016P	2017P	2018P	2019P
BASIC								
Motor Vehicles	760,039	722,774	756,642	795,233	859,397	897,828	937,861	979,588
Drivers	26,593	32,692	41,520	46,992	51,284	55,427	59,418	62,982
Reinsurance Ceded	(6,679)	(9,422)	(13,422)	(13,661)	(13,934)	(14,213)	(14,497)	(14,787)
Total Net Premiums Written	779,953	746,044	784,740	828,564	896,747	939,042	982,782	1,027,783
Net Premiums Earned								
Motor Vehicles	748,948	739,654	741,077	769,872	829,240	879,765	919,045	959,977
Drivers	24,037	29,299	37,015	44,330	49,138	53,355	57,422	61,201
Reinsurance Ceded	(11,308)	(12,202)	(13,422)	(13,722)	(13,934)	(14,213)	(14,497)	(14,787)
Total Net Premiums Earned	761,677	756,751	764,670	800,480	864,444	918,908	961,971	1,006,390
Service Fees & Other Revenues	18,736	18,452	20,384	19,799	21,079	22,815	24,671	26,786
Total Earned Revenues	780,413	775,203	785,053	820,279	885,523	941,723	986,641	1,033,176
Net Claims Incurred	612,037	661,288	747,435	768,340	734,757	775,029	809,687	859,102
Claims Expense	109,760	108,587	114,552	116,249	121,089	126,875	128,445	139,748
Road Safety/Loss Prevention	12,982	13,032	12,816	11,350	10,569	10,643	10,709	10,777
Total Claims Costs	734,779	782,907	874,803	895,940	866,415	912,547	948,841	1,009,627
Expenses								
Operating	57,465	63,758	67,982	73,568	75,138	79,567	81,707	88,135
Commissions	41,034	37,545	32,058	33,496	34,173	35,970	37,450	38,991
Premium Taxes	22,766	23,069	23,343	24,426	26,351	27,994	29,294	30,635
Regulatory/Appeal	3,423	3,392	3,765	3,261	3,315	3,381	3,448	3,518
Total Expenses	124,688	127,764	127,148	134,751	138,978	146,912	151,899	161,279
Underwriting Income (Loss)	(79,054)	(135,467)	(216,898)	(210,412)	(119,870)	(117,736)	(114,099)	(137,730)
Investment Income	101,243	72,363	147,735	107,147	74,711	79,310	83,405	98,297
Net Income (Loss) from Operations	22,189	(63,104)	(69,163)	(103,265)	(45,159)	(38,426)	(30,694)	(39,433)
Allocated from Property	89	-	-	-	-	-	-	-
Transfer from Immobilizer Incentive Fund	-	-	-	-	-	-	-	-
Net Income (Loss)	22,278	(63,104)	(69,163)	(103,265)	(45,159)	(38,426)	(30,694)	(39,433)

Manitoba Public Insurance Multi-year Statements - Balance Sheet

**Scenario based on 3.4% rate increase (no RSR Rebuilding Fee) & 2.0% Flat GoC 10 Year Bond Yield
over Forecast Period**

(C\$ 000s, except where noted)

For the Years Ended February,

	2012A	2013A	2014A	2015P	2016P	2017P	2018P	2019P
BASIC								
Assets								
Cash and investments	1,308,214	1,298,217	1,424,341	1,387,543	1,360,290	1,389,644	1,425,700	1,533,453
Equity investments	424,986	473,796	600,483	620,640	700,403	743,159	789,139	775,371
Investment property	161,186	175,142	32,226	31,226	30,984	30,734	30,510	30,319
Due from other insurance companies	1,956	945	1,755	-	-	-	-	-
Accounts receivable	222,487	232,595	235,616	249,289	266,732	277,983	289,586	301,525
Prepaid expenses	699	716	731	568	568	568	568	568
Deferred policy acquisition costs	22,958	3,884	-	-	-	-	-	-
Reinsurers' share of unearned premiums	2,779	-	-	-	-	-	-	-
Reinsurers' share of unearned claims	23,782	26,130	17,625	-	-	-	-	-
Property and equipment	85,275	87,709	80,108	85,033	85,517	83,746	82,549	80,948
Deferred development costs	33,736	40,884	54,685	70,701	81,714	86,063	90,579	77,606
	2,288,058	2,340,018	2,447,570	2,445,000	2,526,207	2,611,897	2,708,632	2,799,790
Liabilities								
Due to other insurance companies	4,718	1,114	1,213	1,596	1,596	1,596	1,596	1,596
Accounts payable and accrued liabilities	32,891	31,827	35,769	35,673	38,169	39,780	41,440	43,148
Financing lease obligation	3,137	3,091	2,841	3,079	3,020	2,956	2,887	2,814
Unearned premiums and fees	393,285	382,507	402,982	438,580	474,105	497,716	522,278	547,717
Provision for employee current benefits	14,568	14,896	15,389	16,544	17,653	18,782	19,931	21,103
Provision for employee future benefits	207,912	230,117	235,172	249,058	262,114	276,474	291,389	306,958
Provision for unpaid claims	1,368,857	1,450,626	1,584,042	1,632,956	1,700,189	1,775,988	1,852,300	1,941,864
	2,025,368	2,114,178	2,277,408	2,377,487	2,496,846	2,613,291	2,731,821	2,865,200
Equity								
Retained earnings								
Basic Insurance Retained Earnings								
Rate Stabilization Reserve	155,700	149,800	99,876	(3,389)	(48,548)	(86,974)	(117,668)	(157,101)
Retained Earnings	57,983	19,239	-	-	-	-	-	-
Information Technology Optimization Fund	-	-	-	-	-	-	-	-
	213,683	169,039	99,876	(3,389)	(48,548)	(86,974)	(117,668)	(157,101)
Accumulated Other Comprehensive Income	49,007	56,800	70,284	70,902	77,909	85,580	94,478	91,691
Total Equity	262,690	225,839	170,160	67,513	29,361	(1,394)	(23,189)	(65,410)
	2,288,058	2,340,017	2,447,568	2,445,000	2,526,207	2,611,897	2,708,632	2,799,790