

CAC (MPI) Pre-Ask 1

Below is a simplified example giving a hypothetical scenario in which an adverse scenario is projected by the DCAT to result in a \$110 million loss and where the event actually occurs in Year 8. Two options are presented below.

The first option is to build the RSR in advance of the event while the second option is to surcharge premiums the year after the event occurs in order to re-establish the Corporation’s financial position to where it was before the adverse event occurred.

| Assume an average premium of \$1,000 in year 1 with no rate changes required over the years. Based upon DCAT analysis it is assumed that the RSR requires an additional \$110 million at the end of Year 1 in order to protect against a projected adverse event. | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|-------------|----------|----------|
| 1. Rating Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 2. Adverse Event (\$) | | | | | | | | 110,000,000 | | |
| 3. Expected Units | | | | | | | | 1,367,761 | | |
| 4. Adverse Event (\$/unit) | | | | | | | | 79.26 | | |
| Method 1: Rebuild the RSR from years 2 to 5 to withstand the adverse event projected to be \$110 million using a 2% RSR Rebuild charge in each of years 2 through 5. The adverse event occurs in year 8. The RSR is built back up again over years 9 and 10. | | | | | | | | | | |
| 1. Rating Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 5. Adverse Event (%) = (4) / (1,082) | | | | | | | | 7.32% | | |
| 6. RSR Rebuild | | 2.00% | 2.00% | 2.00% | 2.00% | | | | 3.66% | 3.66% |
| 7. Resulting Premium = Prior Years premium x (1 + [5]) | 1,000.00 | 1,020.00 | 1,040.40 | 1,061.21 | 1,082.43 | 1,082.43 | 1,082.43 | 1,082.43 | 1,122.06 | 1,163.15 |
| Method 2: No RSR is held. The adverse event occurs in year 8. The adverse event is paid for through a surcharge per unit in year 9. | | | | | | | | | | |
| 1. Rating Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 8. Resulting Premium: Years 1 to 8 unchanged, Year 9 = Prior Years Premium + (4), Year 10 = Prior Years Premium | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 1,079.26 | 1,079.26 |
| 9. Difference % = (8) / (7) - 1 | 0.00% | -1.96% | -3.88% | -5.77% | -7.62% | -7.62% | -7.62% | -7.62% | -3.81% | -7.21% |
| 10. Difference \$ = (8) - (7) | 0.00 | -20.00 | -40.40 | -61.21 | -82.43 | -82.43 | -82.43 | -82.43 | -42.80 | -83.88 |

1. In the view of the Corporation which option would be in the best interest of Manitoba taxpayers and be most beneficial to the Manitoban economy? Please state the reasons for the view given.
2. The table below gives the amount of taxpayers' money that the Corporation would hold prior to the adverse event in year 8 (\$114.4 million), given this hypothetical scenario. In the Corporation’s opinion is it appropriate for a Crown Corporation to hold this amount in order to protect itself from an event that may or may not occur once in 20 years or once in 40 years? Please state the reasons for the view given.

| 1. Rating Year | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|--|----------------|------------|------------|------------|----------|----------|----------|------------|------------|----------|
| 2. Average Premium | 1,000.00 | 1,020.00 | 1,040.40 | 1,061.21 | 1,082.43 | 1,082.43 | 1,082.43 | 1,082.43 | 1,122.06 | 1,163.15 |
| 3. RSR Rebuild % | 2.00% | 2.00% | 2.00% | 2.00% | 0.00% | 0.00% | 0.00% | 3.66% | 3.66% | 0.00% |
| Amount of RSR Rebuild = (2) x (3)x1,387,761 | 27,755,218 | 28,310,322 | 28,876,529 | 29,454,059 | - | - | - | 55,000,000 | 57,013,771 | - |
| Amount of RSR Rebuild before Adverse Event - Years 2 through 5 | \$ 114,396,129 | | | | | | | | | |

RESPONSE:

1) and 2)

The purpose of the Rate Stabilization Reserve is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. The question seems to imply that the Corporation should hold zero capital reserves and then surcharge customers' after an adverse event occurs. Such an approach does not achieve the stated purpose of the Rate Stabilization Reserve. The Corporation would not recommend such an approach, nor is such an approach used by any other automobile insurer (public or private) in Canada.

The Corporation, in consultation with the PUB and CAC, has been developing a DCAT-based minimum capital target for Basic insurance that is reflective of the plausible financial risks and management/regulatory actions for the Basic compulsory program. In the Corporation's opinion, this "made-in-Manitoba" minimum capital target provides a sufficient level of protection to ratepayers from plausible adverse events, while at the same time requiring the smallest possible amount of "taxpayers' money" to be held in capital reserves. The Corporation believes that this balance is in the best interests of Manitoba ratepayers.

As evidence for the above statements, the Corporation notes that the proposed Basic minimum capital target (\$213 million in Total Equity) is significantly lower

than the equivalent minimum capital targets used by both private (150%+ MCT = \$484+ million) and public automobile insurers (approximately 100% MCT = \$323 million) in Canada. In this application, the Corporation is not proposing that Manitoba ratepayers fund these higher targets used in other jurisdictions.

The Corporation cannot provide an assessment of the impact of a given scenario on the Manitoba economy.

CAC (MPI) Pre-Ask 2

Please confirm all of the figures in the table below are correct. If any of these figures cannot be confirmed, please provide the corrected figure as well as the basis for the correction.

Collision Severity by Claim Type at 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 | 4.37% | 4,746 | 7.64% | 2,181 | 5.41% |
| 2006/07 | 1,673 | 1.46% | 4,790 | 0.93% | 2,213 | 1.47% |
| 2007/08 | 1,661 | -0.72% | 4,935 | 3.03% | 2,233 | 0.90% |
| 2008/09 | 1,702 | 2.47% | 4,933 | -0.04% | 2,277 | 1.97% |
| 2009/10 | 1,747 | 2.64% | 4,903 | -0.61% | 2,328 | 2.24% |
| 2010/11 | 1,800 | 3.03% | 4,940 | 0.75% | 2,392 | 2.75% |
| 2011/12 | 1,864 | 3.56% | 5,069 | 2.61% | 2,479 | 3.64% |
| 2012/13 | 1,938 | 3.97% | 5,316 | 4.87% | 2,579 | 4.03% |
| 2013/14 | 2,085 | 7.59% | 5,831 | 9.69% | 2,842 | 10.20% |
| | | | | | | |
| 3 Year Average | 1,962 | 5.04% | 5,405 | 5.72% | 2,633 | 5.96% |
| 5 Year Average | 1,887 | 4.16% | 5,212 | 3.46% | 2,524 | 4.57% |
| 7 Year Average | 1,828 | 3.22% | 5,132 | 2.90% | 2,447 | 3.68% |
| 10 Year Average | 1,770 | 3.15% | 4,987 | 3.21% | 2,359 | 3.62% |
| | | | | | | |
| Average excluding last year | | | | | | 2.80% |
| 5 Year average without last year | | | | | | 2.93% |
| 7 year average without last year | | | | | | 2.43% |

RESPONSE:

Calculations for the “% Change” column are based on the actual severities without rounding which would cause slight differences from the table submitted. As well, to clarify, “5 Year average without last year” is to take an average of years 2008/09 to 2012/13. “Average excluding last year” was changed to “8 year average without last year” for clarification.

Collision Severity by Claim Type at 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 | 7.64% | 2,181 | 5.41% |
| 2006/07 | 1,673 | 1.46% | 4,790 | 0.93% | 2,213 | 1.49% |
| 2007/08 | 1,661 | -0.77% | 4,935 | 3.03% | 2,233 | 0.89% |
| 2008/09 | 1,702 | 2.48% | 4,933 | -0.04% | 2,277 | 1.94% |
| 2009/10 | 1,747 | 2.63% | 4,903 | -0.61% | 2,328 | 2.24% |
| 2010/11 | 1,800 | 3.06% | 4,940 | 0.75% | 2,392 | 2.79% |
| 2011/12 | 1,864 | 3.53% | 5,069 | 2.61% | 2,479 | 3.60% |
| 2012/13 | 1,938 | 4.00% | 5,316 | 4.87% | 2,579 | 4.07% |
| 2013/14 | 2,085 | 7.58% | 5,831 | 9.69% | 2,842 | 10.17% |
| | | | | | | |
| 3 Year Average | 1,962 | 5.04% | 5,405 | 5.72% | 2,633 | 5.95% |
| 5 Year Average | 1,887 | 4.16% | 5,212 | 3.46% | 2,524 | 4.57% |
| 7 Year Average | 1,828 | 3.22% | 5,132 | 2.90% | 2,447 | 3.67% |
| 10 Year Average | 1,770 | 3.15% | 4,987 | 3.21% | 2,359 | 3.62% |
| | | | | | | |
| 8 Year average without last year | | | | | | 2.81% |
| 5 Year average without last year | | | | | | 2.93% |
| 7 year average without last year | | | | | | 2.43% |

CAC (MPI) Pre-Ask 3**Reference: Appendix E, Page 6****October 31, 2013****Actuary's report**

Please confirm the figures in the table below. The Tab Rsv 116-Ult figures are taken from Appendix E, Page 6 of the October 31, 2013 Actuary's report.

| | TAB RSv 116-Ult |
|------------------------------------|--------------------------------|
| 95/96 | 0.7564 |
| 96/97 | 0.8388 |
| 97/98 | 0.9449 |
| 98/99 | 0.9705 |
| 99/00 | 1.0288 |
| 00/01 | 0.9595 |
| 01/02 | 1.0523 |
| 02/03 | 0.9996 |
| 03/04 | 1.0648 |
| | |
| Average | 0.9573 |
| Average Excluding Last Year | 0.9439 |
| Average Excluding High/Low | 0.9706 |
| 5 Year Average | 1.0210 |
| 5 Year Average Excluding Last Year | 1.0021 |
| 3 Year Average | 1.0389 |
| 3 Year Average Excluding Last Year | 1.0038 |
| | |
| Selected | 1.0100 |

RESPONSE:

The Corporation confirms that the figures are correct. However, note that the figures for 1995 and 1996 should not be included in deriving the averages. The Corporation introduced the current reserving calculator in fiscal year 2005, which resulted in a significant decrease in case reserve levels. Reported losses for prior fiscal years were not restated to reflect the new case reserve levels. For 1995 and 1996, this means that figures up to the 140 and 128 development months respectively were not restated. The 'Tab Rsv 116-Ult' factor for these two years would include the impact of this change, which is not reflective of actual reported loss development and therefore should be excluded. See the table below with these two years excluded from the average calculation.

| | Tab Rsv 116-Ult |
|------------------------------------|--------------------------------|
| 97/98 | 0.9449 |
| 98/99 | 0.9705 |
| 99/00 | 1.0288 |
| 00/01 | 0.9595 |
| 01/02 | 1.0523 |
| 02/03 | 0.9996 |
| 03/04 | 1.0648 |
| | |
| Average | 1.0029 |
| Average Excluding Last Year | 0.9926 |
| Average Excluding High/Low | 1.0021 |
| 5 Year Average | 1.0210 |
| 5 Year Average Excluding Last Year | 1.0021 |
| 3 Year Average | 1.0389 |
| 3 Year Average Excluding Last Year | 1.0038 |
| | |
| Selected | 1.0100 |