MPI 2016 General Rate Application

October 5, 2015

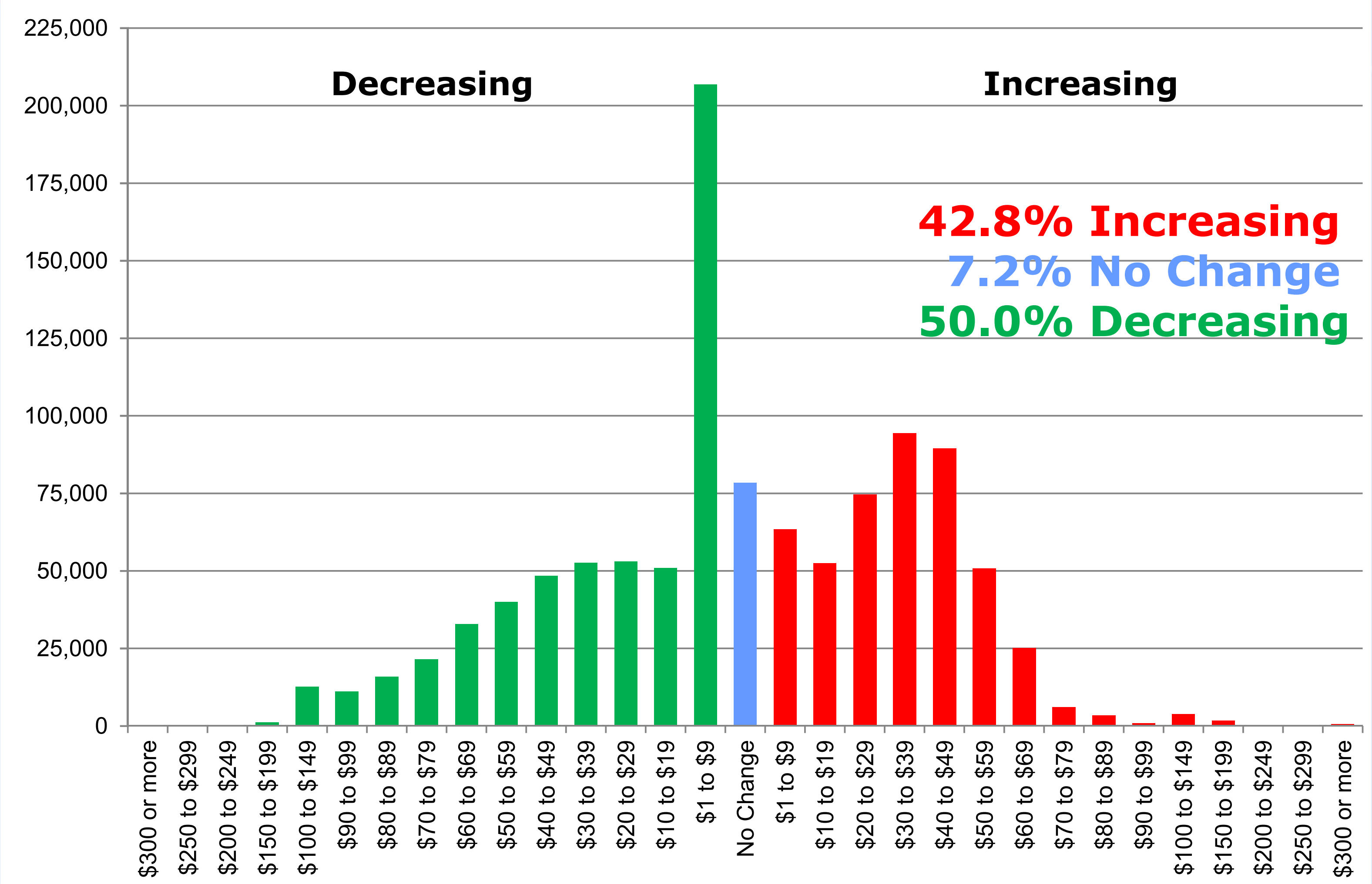
This report has been prepared as advice, opinions, proposals, recommendations, analyses or policy options developed by or for the public body or a minister, as per Section 23(1) of the Freedom of Information and Protection of Privacy Act.

Manitoba Public Insurance

2016 GRA

- A 0.0% rate increase
- No RSR rebuilding fee as a result of the $75.5 million transfer of retained earnings from Extension
- A minimum (lower) RSR target of $231 million in Total Equity based on the results of the 2015 DCAT report
- A maximum (upper) RSR target equal to a Minimum Capital Test (MCT) ratio of 100%, which is currently equal to $366 million based on the 2014/15 year end financial results

2016 Rate Change

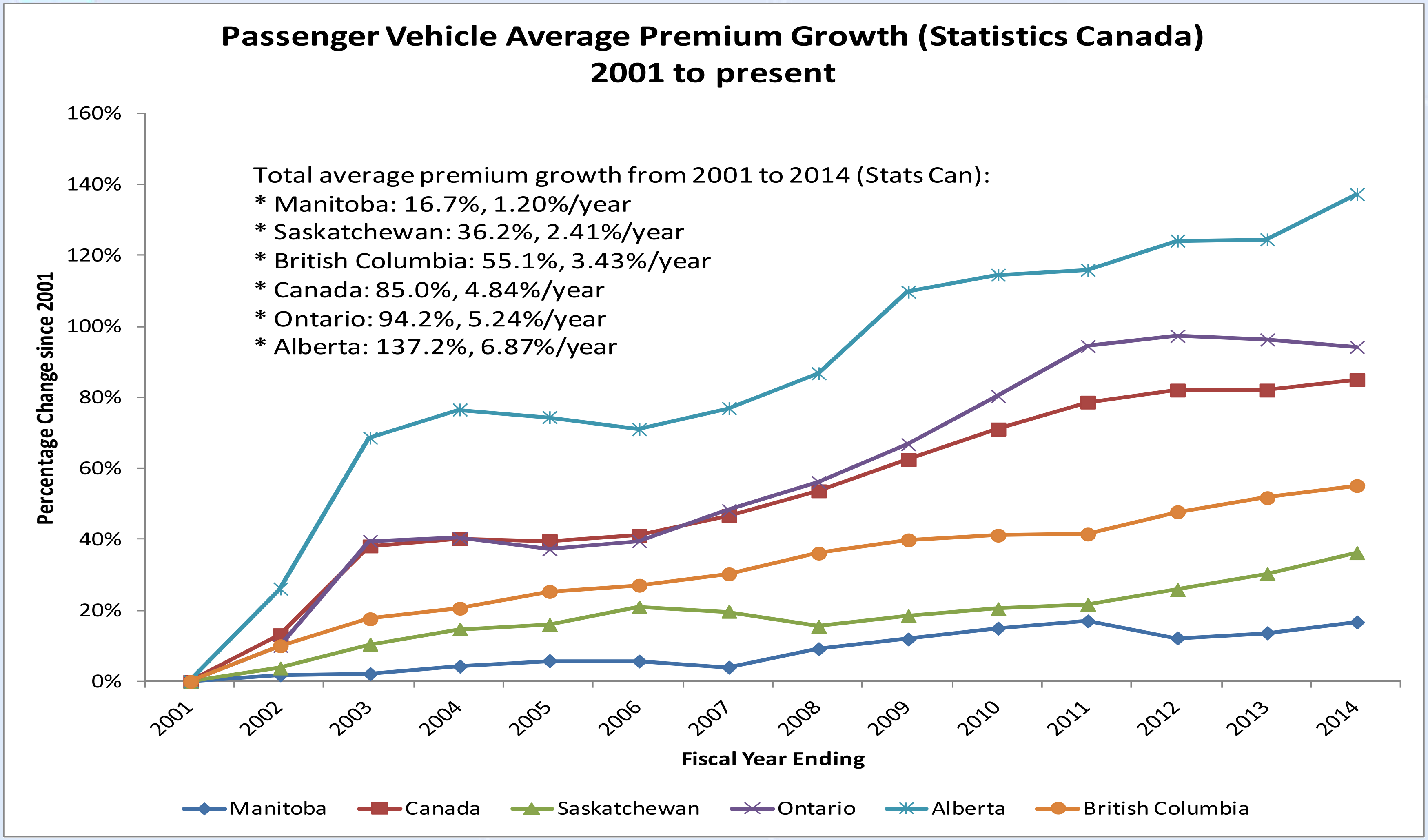


Rate and Rebate History

Rebates		
Year	Total ($millions)	Per cent of premiums (%)
2016		
2015		
2014		
2013		
2012		
2011	$336	45.0
2010		
2009		
2008	$63	10.0
2007	$60	10.0
2006	$58	10.0
2005		
2004		
2003		
2002		
2001	$80	16.6

Rate Changes %		
Year	Applied	Order
2016	0.0	
2015	2.4 + 1.0 RSR Rebuilding Fee	3.4
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

Provincial Premium Growth Comparison



2014/15 RESULTS

2014/15 Results

(in $millions)	2016 GRA-Actual	2015 GRA-Forecast	Better/ (Worse)
Earned Revenues	823.4	820.3	3.1
Net Claims Incurred	745.8	624.8	(121.1)
Claims Expenses (including Loss Prevention/Road Safety)	127.9	127.6	(0.3)
Expenses - Operating, Commissions, Premium Taxes, Regulatory	135.6	134.8	(0.8)
Investment Income (Loss)	188.4	28.8	159.6
Net Income (Loss)	$2.4	($38.1)	$40.5

2014/15 Results (cont'd)

- $43.3M – lower frequency of collision claims; 12.1% below forecast
- ($11.7M) – 3.4% physical damage severity increase
- $22.9M – reduced injury claims count; decline of 8.9%
- ($53.6M) – net impact of interest rates between claims liabilities & fixed income assets (-$190.0 claims, +$136.4 fixed income)

2014/15 Results (cont'd)

- ($20.2M) – deterioration in internal claims adjustment cost liability; resulting from declining interest rates
- $7.6M – improvement in premium deficiency liability relative to Feb, 2014
- $26.8M – reduction in investment margin for adverse deviation in Appointed Actuary's report (100 basis points to 75 basis points)

2014/15 Results (cont'd)

- $25.1M – higher than expected investment income from equities and alternative assets
- $0.3M – combined impact of all other factors

2015/16 UPDATED FORECAST

2015/16 Budget

(in $millions)	2016 GRA-Budget	2015 GRA-Forecast	Better/ (Worse)
Earned Revenues	883.4	885.5	(2.1)
Net Claims Incurred	588.9	672.1	83.2
Claims Expenses (including Loss Prevention/Road Safety)	132.5	131.0	(1.5)
Expenses - Operating, Commissions, Premium Taxes, Regulatory	136.2	138.6	2.4
Investment Income (Loss)	(10.8)	49.9	(60.7)
Net Income (Loss)	$15.0	($6.3)	$21.3

2015/16 Budget (cont'd)

- $36.2M – decrease in PFAD assumption (75 basis points to 50 basis points)
- ($20.0M) – net impact of interest rates (+$35.0M claims, -$55.0M fixed income)
- $8.1M – increased interest rate = decrease in ILAE (Internal Loss Adjustment Expenses)
- ($3.0M) – all other impacts

2015/16 SECOND QUARTER RESULTS

YTD results six months ended August 31, 2015

(in $millions)	Basic	Budget	Better/ (Worse)
Earned Revenues	441.1	447.9	(6.8)
Net Claims Incurred	292.0	273.7	(18.3)
Claims Expenses (including Loss Prevention/Road Safety)	64.7	67.1	2.4
Expenses - Operating, Commissions, Premium Taxes, Regulatory	66.2	65.8	(0.4)
Investment Income (Loss)	(13.2)	(3.7)	(9.5)
Net Income (Loss)	$5.0	$37.6	($32.6)

Second Quarter Results (cont'd)

- ($20.2M) – poor hail experience
- ($18.1M) – ½ of the budgeted change in interest rate pfad, which will be revised in Oct AA report
- ($14.5M) – quarterly IBNR adjustments (PIPP adjusted to ultimate)
- $15.2 – favourable collision and PIPP experience

Second Quarter Results (cont'd)

- ($6.2M) – losses on equities higher than budget
- $7.8M favourable net impact of interest rates (+$14.0M claims - $6.2M bonds)
- $2.0M – Claims and Operating expenses lower than budget
- $1.6M- all other impacts

Interest Rate Impact – Basic
in millions of $

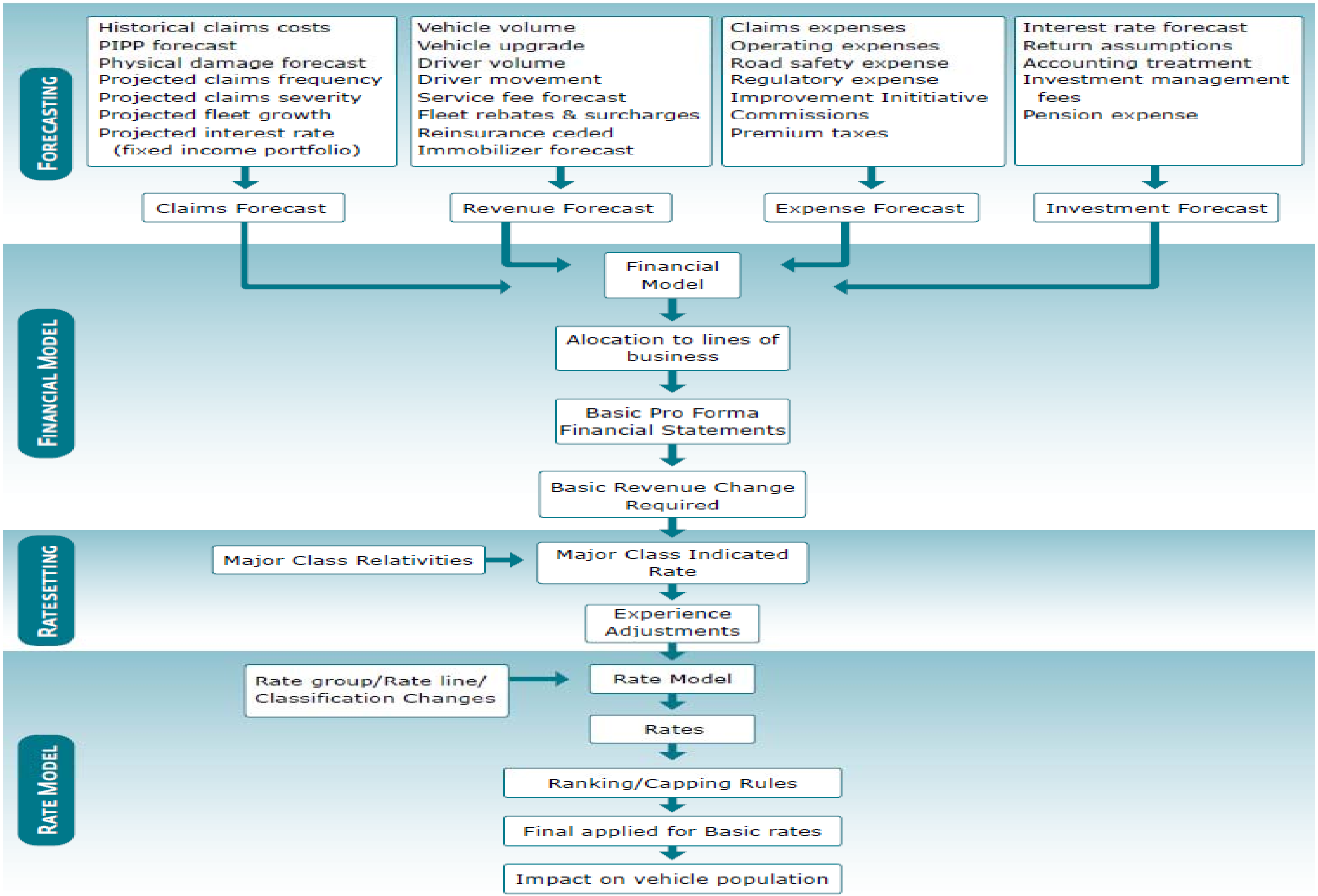
	Actual	Budget	B / (W)
Gains(losses) on Mktble Bonds	(61.1)	(54.6)	(6.5)
Basic Allocation	85.2%	84.1%	
Basic Share	(52.1)	(45.9)	(6.2)

(Increase)/Decrease to Claims due to Discount Rate Changes	67.9	53.9	14.0
Net Impact	$15.8	$8.0	$7.8

- Interest rates have been higher than budgeted

2016/17 INDICATED RATES

Rate Setting Framework



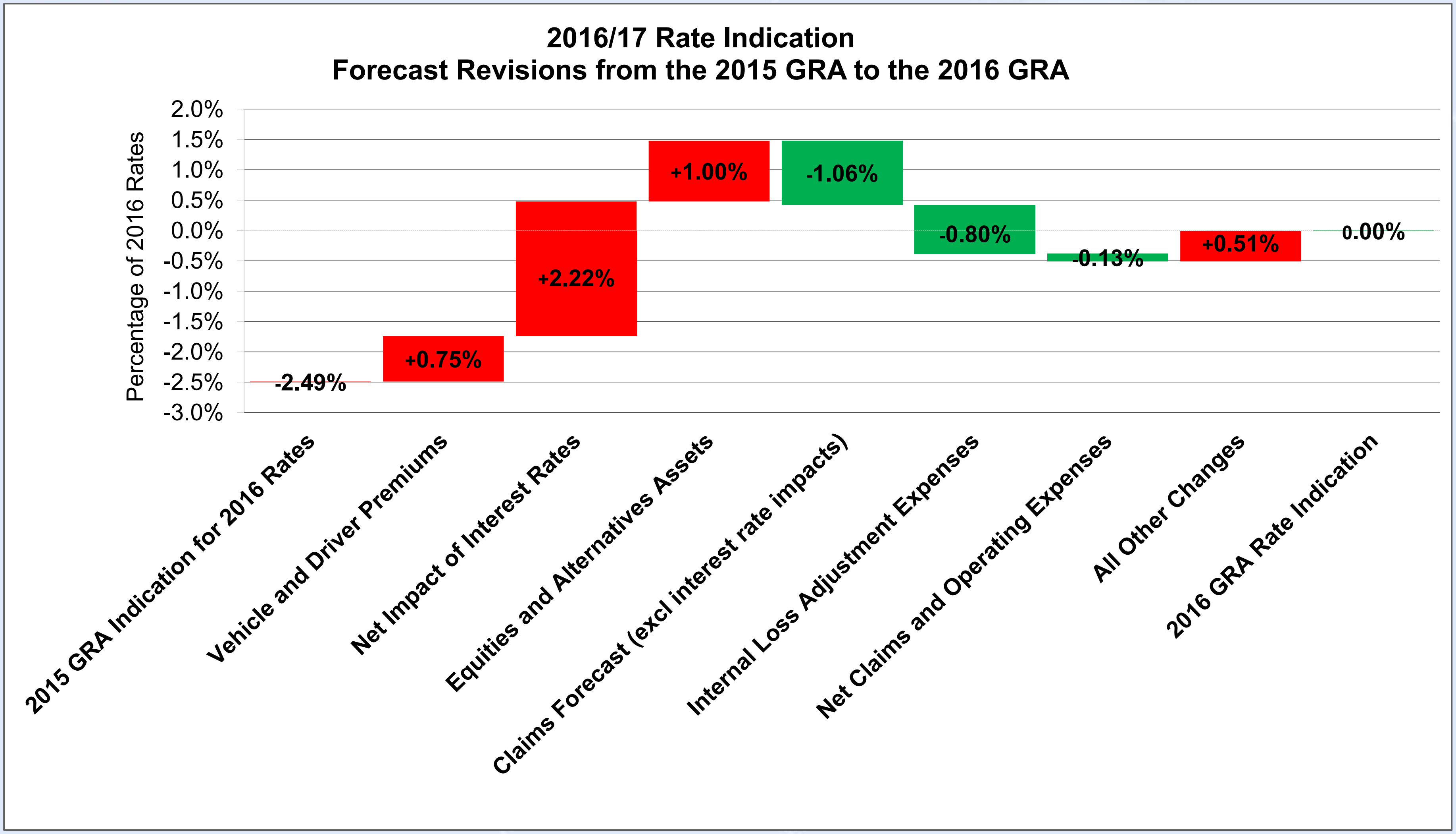
2016/17 Indicated Rates

Major Class	Vehicle Count	Current Avg. Rate	Proposed Avg. Rate	Indicated Rate Change	Experience Rate Change
Private Passenger	768,836	$976	$975	-0.1%	-0.1%
Commercial	45,429	$655	$672	3.4%	2.5%
Public	12,441	$1,776	$1,887	6.3%	6.3%
Motorcycles	14,825	$821	$758	-8.2%	-7.6%
Trailers	184,955	$66	$64	-3.2%	-3.8%
Off-Road Vehicles	66,086	$12	$12	-18.3%	0.0%
Overall	1,092,572	$757	$757	0.0%	0.0%

2016/17 Rating Period Forecast 2016 GRA versus 2015 GRA (M's)

	2015 GRA	2016 GRA	Difference
Earned Revenues	$964.2	$957.5	($6.7)
Claim Costs	$874.0	$825.2	($48.9)
Expenses	$148.8	$144.6	($4.2)
Investment Income	$81.0	$12.9	($68.1)
Net Income (Loss)	$22.3	$0.6	($21.7)

Components of the 2016/17 Rate Indication 2015 GRA vs 2016 GRA



Interest Rates

- With a change to full duration matching and closer dollar matching of claims and fixed income assets from the ALM Study, the positive impact of rising interest rates is lower this year
- The net income impact of rising interest rates in the 2016 GRA is ($20.0) million compared to the 2015 GRA due to the decrease in interest rate risk from the ALM study changes
  - This increases the rate requirement (all else equal) by approximately 2.2%

New Asset Allocation Impact on 2016/17 Rate Indication

- Changed target asset allocation to 70% fixed income, 15% equities, 15% alternatives
- Previous allocation was 60% fixed income, 20% equities, 20% alternatives
- Forecasted investment income from equities, real estate and infrastructure is lower due to the decreased allocation to these assets
- The net income impact of the lower allocation to these asset classes in the 2016 GRA is ($9.0) million compared to the 2015 GRA
  - This increases the rate requirement by approximately 1.0%

All Other Rating Impacts

- Lower than expected vehicle units; improved DSR forecast = $6.7M reduction in premium forecast (+0.75%)
- Lower Comprehensive and PIPP forecasts based on updated information = $9.6M improvement (-1.06%)
- Lower internal loss adjustment expenses and net claim and operating expense = $8.2M improvement (-0.93%)
- All other impacts = $3.8M unfavourable (+0.51%)

EXPENSES

Expenses

- Total average expenses 2016 rating period (2016/17 & 2017/18)- $219.9M
- 2015 total average rating period (2015/16 & 2016/17) - $214.1M
- Difference – $5.8M
- Approx $2.0M of this increase is due to amortization commencing earlier than expected
- The balance is due to the mix of improvement initiatives

Expenses (cont'd)

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

Normal Operating Expenses Basic Share

($millions)	2013/14	2014/15	2015/16	2016/17	2017/18
Compensation	112.2	115.2	118.1	121.8	125.2
Data Processing	14.2	16.2	16.5	17.3	17.9
Other	49.1	49.1	48.3	48.7	49.9
Subtotal	175.5	180.5	182.9	187.8	193.0
% increase (decrease)	*5.0%*	*2.8%*	*1.3%*	*2.7%*	*2.8%*
Amortization / Depreciation	12.8	18.3	14.2	11.7	11.4
% increase (decrease)	*4.0%*	*43.0%*	*(22.4)%*	*(17.6)%*	*(2.6)%*
Total Normal Operating Expenses	188.4	198.8	197.1	199.5	204.4
% Increase / (Decrease)	*2.2%*	*5.5%*	*-0.9%*	*1.2%*	*2.5%*

Expenses (cont'd)

- Once again Normal Operating Expenses are not the key driver in the rate increase request
- The Basic average normal operating expenses forecasted in the rating years (2016/17 and 2017/18) is $202.0 million
- This represents an increase of 1.2% and 2.4% respectively
- Increases nominal despite CPI and mandatory economic and steps in scale increases

Expenses (cont'd)

- MPI is containing overall increases in normal operating expenses despite contractual commitments for salary increases of 3.9% in 2016/17 and 3.5% in 2017/18
- Includes General Wage Increase and Steps in Scale

Compensation Expenses Basic Share

($millions)	2013/14 actual	2014/15 actual	2015/16 budget	2016/17 forecast	2017/18 forecast
Gross Salaries	124.6	128.7	129.9	134.7	139.3
Vacancy Allowance	-4.9	-6.2	-6.0	-6.2	-6.5
Overtime	3.0	2.1	1.9	1.9	2.0
Benefits	27.5	27.6	28.5	29.6	30.9
H & E Tax	2.5	2.6	2.8	2.9	3.0
Total Compensation Expenses	152.7	154.8	157.1	162.9	168.6
Basic Allocation %	**73.5%**	**74.4%**	**75.2%**	**74.7%**	**74.2%**
Total Compensation Expenses Basic Share	**112.2**	**115.2**	**118.1**	**121.7**	**125.2**
% Increase / (Decrease)		2.67%	2.52%	3.05%	2.88%

Compensation

Why does compensation expense fluctuate?

- Five Main Reasons:
  - General Wage Increases – negotiated
  - Changes in the number of staff employed
  - Changes due to movement on scale – increased experience in current job (imbedded in contract)
  - Job classification changes – change in mix of staff
  - Change in benefits (both cost and type)

Compensation (cont'd)

- 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 (cont'd)

In the last four years (2010/11 to 2014/15) cumulative increase due to:

	Four-Year Total $millions	Average Annual $millions	Compounded Annual % Increase
General Wage Increase	5.9	1.5	1.4
# of staff employed	3.0	0.7	.7
Movement on scale	7.8	1.9	1.8
Benefits & Other	-1.6	0.8	-0.1
TOTAL	$15.3	$3.8	2.6

Compensation (cont'd)

The next three years 2015/16 to 2017/18

	3 Years Total $ millions	Annual Average $millions	Compounded Annual % Increase
General Wage Increase	6.4	2.1	1.8
# of staff employed	-1.5	-0.5	-0.4
Movement on scale	6.6	2.2	1.9
Benefits & Other	2.3	0.8	0.5
TOTAL	$13.8	$4.6	2.9

Other Expenses

- Non compensation expenses - excluding depreciation and amortization
  - In the rating years (2016/17 & 2017/18) are forecasted to increase 1.9% and 2.8%
  - The only reason they are forecasted to increase by more than inflation in 17/18 is due to an equipment refresh which occurs every 3-4 years
    - The refresh represents 1.5% (over half of the overall increase in 17/18)

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	2013/14	2014/15	2015/16	2016/17	2017/18
Implementation Expenses	5.1	5.4	6.8	9.2	5.7
Ongoing Expenses	5.7	1.9	3.2	8.7	12.3
Total Improvement Initiative Expenses	**10.8**	**7.3**	**10.0**	**17.9**	**18.0**
% Increase / (Decrease)	15.8%	-32.4%	37.0%	79.0%	0.6%

- The increase related to ongoing expenses in 2016/17 is primarily due to the start of amortization for ITO – High Availability, PDR – Collaborative Estimating, Legal Management, and Predictive Analytics
- The increase related to ongoing expenses in 2017/18 is primarily due to the start of amortization expense for the Information Security Strategy & Roadmap and HRMS related projects

Basic Capitalized Costs ($millions)

$millions	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Deferred Expenses	8.8	5.4	14.9	24.6	14.8	16.6	22.0	24.3
Capital Expenditures	0.2	0.0	1.0	0.0	0.0	2.4	2.4	0.8
TOTAL	9.0	5.4	15.9	24.6	14.8	19.0	24.4	25.1

- 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

INVESTMENT INCOME

Basic Investment Income

	10/11	11/12	12/13	13/14	14/15	15/16 f	16/17 f	17/18 f
TOTAL	83.8	101.1	68.1	147.7	188.4	-10.8	12.8	12.9

- Actual and forecasted volatility in investment income
- 2014/15 actual was mainly driven by gains in marketable bonds due to falling interest rates
- 2015/16, 16/17 and 17/18 forecasted low investment income driven by losses on marketable bonds due to forecasting rising interest rates. These losses are offset by corresponding decreases in claims liabilities

Net Impact of Interest Rates (Corporate)

- The net impact of interest rates on Corporate net income is relatively small because of the change to a full duration matching strategy as a result of the recent Asset Liability Management (ALM) study

Corporate Interest Rate Impact	2015/16	2016/17	2017/18
Gain/Loss on Marketable Bonds	($108.7)	($87.0)	($94.9)
Change in Claims Liabilities	($103.5)	($86.9)	($104.3)
Net Impact	($5.2)	($0.1)	$9.4

- The 3 year average Corporate impact from 2015/16 to 2017/18 was $1.3 million, which is a relatively small impact on an approximate $1.1 billion dollar fixed income portfolio

Net Impact of Interest Rates (Basic)

- The net impact on Basic net income is greater because the dollar value of the fixed income portfolio is matched to the claims liabilities on a Corporate basis
- As a result, there is a positive impact to Basic with a rising interest rate forecast (average rating year impact of $18.1 million)

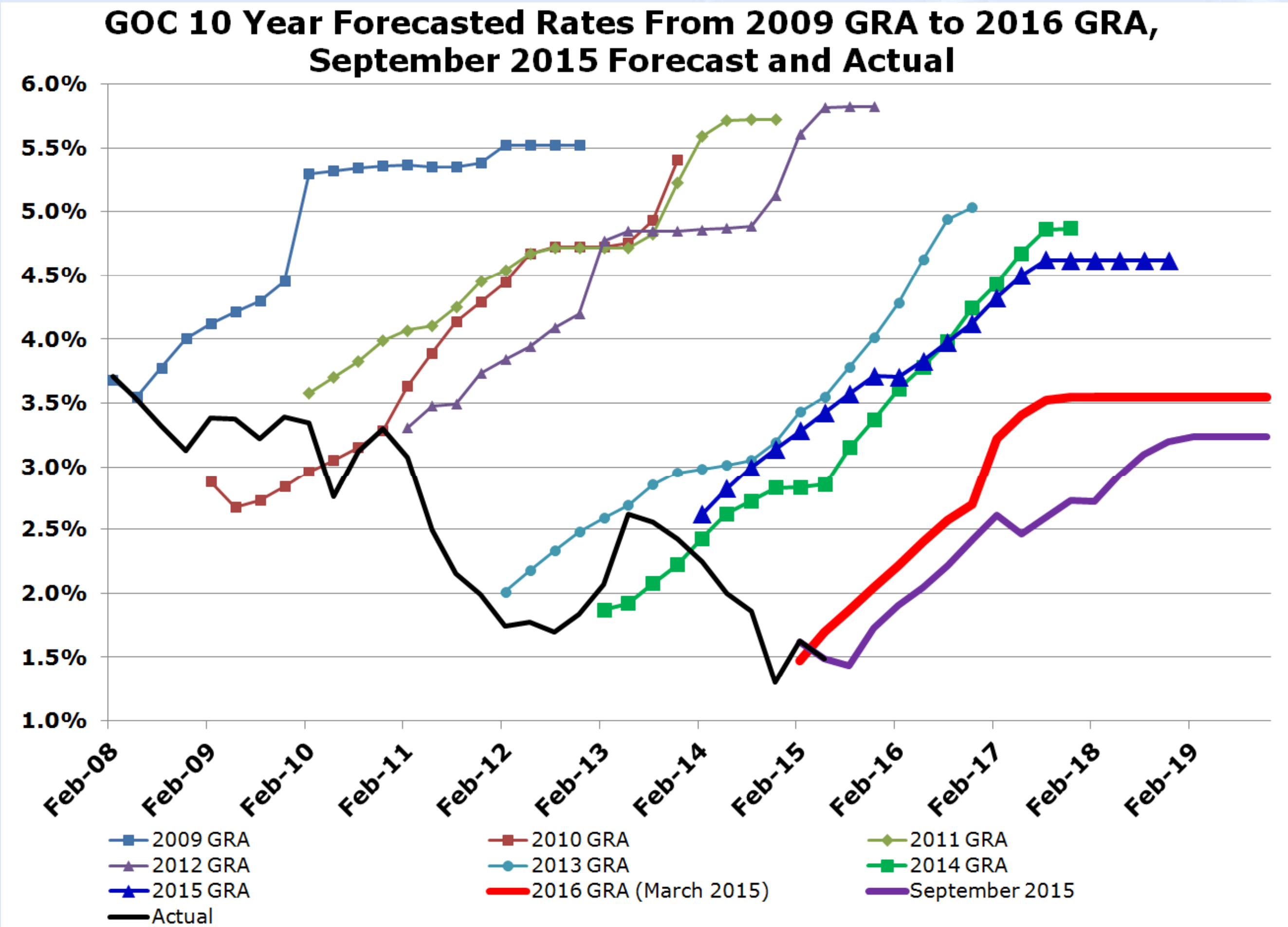
Basic Interest Rate Impact	2015/16	2016/17	2017/18
Gain/Loss on Marketable Bonds	($90.7)	($72.6)	($79.2)
Change in Claims Liabilities	($101.9)	($85.5)	($102.5)
Net Impact	$11.2	$12.9	$23.3

- By implementing the ALM strategy, the average positive impact of rising interest rates over the rating years was reduced.

ALM Study

- ALM study was completed in late 2014
  - Reviewed the claims and pension liabilities and equity of the Corporation to optimize asset allocation
  - Recommended interest rate risk mitigation strategy
- Two Major Outcomes from ALM Study
  - Changed target asset allocation to 70% fixed income, 15% equities, 15% alternatives
  - Duration match fixed income portfolio to claims liabilities to reduce the interest rate forecasting risk of the Corporation

Interest Rate Forecasts



Interest Rate Forecast

- If the GRA had been based on the bank interest rate forecasts at September 30 2015, a 1.6% rate increase would have been requested.

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
- Unexpected and non-recurring events or factors include variances from a break-even budget
- These variances, both positive and negative flow through retained earnings to the RSR until the RSR reaches the upper range.

Accounting Treatment of RSR

"Given the nature of the industry and the difficulty in predicting operating results, the RSR is often used for more than just offsetting extreme, one-time events, but rather absorbing the variances from plan each year."

- PWC letter to MPI,
November 18, 2014

The Corporation's Position on the RSR

- Stated purpose of the RSR has not changed in 25 years
- RSR has properly reflected the stated purpose
- RSR accounting treatment is appropriate
- An RSR range is required
- The DCAT at a 1-in-40 year probability level for the lower (minimum) RSR target ($231M)
- The MCT at 100% for the upper RSR target ($366M)

Transfer to RSR

- The Corporation's Board of Directors directed that $75.5 million be transferred from the Extension line of business to the Basic RSR at the end of 2014/15
- This transfer was made to ensure that Basic Total Equity was $213 million, which was the amount required for Basic to have a satisfactory financial condition in the 2014 DCAT report

DCAT-Based Lower RSR Target

- The purpose of the DCAT is to identify plausible threats to satisfactory financial condition, actions that would lessen the likelihood of those threats, and actions that would mitigate a threat if it materialized
- The lower RSR target of $231 million in Total Equity is a calculation reflecting a 1-in-40 year adverse scenario specifically related to the Corporation
- DCAT target includes assumed management and regulatory actions
- This calculation has been exhaustively tested in past hearings, through multiple technical conferences, live demonstrations, and a collaborative process

DCAT Collaboration

- On-going since 2010
- Corporation has been very open and transparent
- Two technical conferences: 2013 and 2014
- Printed version of financial model for all adverse scenarios in 2014 DCAT
- DCAT Collaborative Process in 2015
- Live demo of financial model in 2015
- Peer reviewed annually by External Actuary

DCAT Collaborative Process

- As a result of Board Order 135/14
- Collaborative discussions occurred from Feb 2015 through Sept 2015, primarily through email
- RSR 1.2 provides the Corporation's responses to all items from Order 135/14 Appendix E

DCAT Results *before* Management Action

DCAT Adverse Scenarios before Management Action:

Total Equity (in $millions)

	2015/16	2016/17	2017/18	2018/19	2019/20
4-Year Combined Scenario	$262	$181	$89	($42)	($90)
2-Year Combined Scenario	$262	$139	($13)	n/a	n/a
Sustained Low Interest Rates	$262	$192	$151	$104	$71
Equity Decline	$262	$202	$167	$119	$138
High Loss Ratio	$262	$213	$207	$154	$171
DCAT Base Forecast	$262	$257	$278	$288	$318

DCAT Results *before* Management Action (cont'd)

DCAT Adverse Scenarios before Management Action:

Change in Total Equity compared to Base Scenario (in $millions)

	2015/16	2016/17	2017/18	2018/19	2019/20
4-Year Combined Scenario	$0	($76)	($189)	($330)	($408)
2-Year Combined Scenario	$0	($118)	($291)	n/a	n/a
Sustained Low Interest Rates	$0	($64)	($128)	($183)	($247)
Equity Decline	$0	($55)	($112)	($147)	($134)
High Loss Ratio	$0	($43)	($71)	($133)	($147)
DCAT Base Forecast	$0	$0	$0	$0	$0

Most Adverse 1-in-40 Year Scenario *before* Management Action

- Four-year combined interest rate, equities, and claims incurred scenario
- Total Equity balance of -$90 million, or a reduction of $408 million, from the base forecast by the end of 2019/20
- Example: Over 4 year forecast period:
  - Interest rates at 1.68%
  - Cumulative equity returns of -7.2%
  - Ultimate claims $12.5M over budget
- Other combinations produce the same result at a 1-in-40 year risk level

Management and Regulatory Action Assumptions

- The Corporation will apply for break even rates
- The maximum additional RSR rebuilding fee in a given GRA is 2.0%
- The maximum combined rate increase and additional RSR rebuilding fee in a given GRA is 5.0%

DCAT Results *after* Management Action

DCAT Adverse Scenarios after Management Action:

Total Equity (in $millions)

	2015/16	2016/17	2017/18	2018/19	2019/20
4-Year Combined Scenario	$262	$181	$116	$51	$70
2-Year Combined Scenario	$262	$139	$31	n/a	n/a
Sustained Low Interest Rates	$262	$192	$186	$196	$225
Equity Decline	$262	$202	$167	$140	$184
High Loss Ratio	$262	$213	$207	$183	$231
DCAT Base Forecast	$262	$257	$278	$288	$318

Most Adverse 1-in-40 Year Scenario *after* Management Action

- Two year combined interest rate, equities, and claims incurred scenario
- Total Equity balance of $31 million, or a reduction of $247 million from the base forecast by the end of 2017/18
- Example: Over 2 year period:
  - Interest rates at 1.25%
  - Cumulative equity returns of -14.7%
  - Ultimate claims $18M over budget
- Other combinations produce the same result at a 1-in-40 year risk level

Satisfactory Future Financial Condition

- All DCAT adverse scenarios at the 1-in-40 year probability level maintain a positive Total Equity balance throughout the entire forecast period

AND

- The base scenario remains above the PUB's minimum RSR target for the entire forecast period

Therefore:

- The Chief Actuary's opinion is that Basic has satisfactory future financial condition as at February 28, 2015

DCAT-Based RSR Target Calculation

- Total Equity needs to be *at least* $231M as of the end of 2015/16 for all 1-in-40 year adverse scenarios to maintain a positive Total Equity balance over the forecast period
- This calculation is the basis for the Corporation’s $231M DCAT-based lower RSR target

Total Equity from the 2 year, 1-in-40 year Combined Scenario with 2015/16 Total Equity Balance Restated to $231 million

	2015/16	2016/17	2017/18
Restated Total Equity	**$231**	$108	**$0**

100% MCT-Based Upper RSR Target

- The Minimum Capital Test (MCT):
  - is a standardized test that is used by the insurance industry and its regulators
  - is a risk-based approach
  - allows objective comparison to other automobile insurers (both public and private)
  - OSFI minimum supervisory MCT target = 150%
  - Private sector average MCT ratio >200%
- Proposed upper Total Equity target equal to $366M based on Minimum Capital Test (MCT) ratio of 100% as at Feb 2015

MCT: Areas of Agreement with Board

- The MCT should not be the only tool used to determine the capital targets for the Basic program
- The MCT results provide the Board with important and objective information about the risk level of the Basic program and how that risk level compares to other automobile insurers

100% MCT Upper Target – Why?

- Federally regulated and standardized test used by all P&C insurers in Canada *except* MPI
- Other public insurers and/or governments have arrived at the conclusion that an MCT ratio of this magnitude is both appropriate and prudent for a government insurer
- Independent, objective, externally-developed measurement of the risk to the Basic program
- A 100% MCT ratio *excludes* the additional 50% supervisory adjustment to deal with strategic-type risks that would not be applicable to an monopoly insurer
- Not an effective use of corporate resources to attempt to redevelop an external test created and maintained by industry experts