

2017 General Rate Application

October 13th, 2016

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Agenda

1. Requested Order
2. Interest Rate Forecast Risk Factor
3. 2017/18 Indicated Rates
4. Rate Stabilization Reserve
 - i. MCT
 - ii. DCAT
5. 2015/16 Financial Results
6. 2016/17 Year to Date Results
7. Expenses
8. Cost Containment
9. Investment Income
10. Benchmarking
11. Conclusions





Key Regulatory Issues

Important issues facing the Corporation and the Regulator today

- Interest Rate Forecasting
- Rate Stabilization Reserve
 - Finalizing the RSR Target methodologies
 - Definition of the RSR
 - Strategy on the use of Excess Equity

MPI has built on the past collaborative efforts to work with PUB and interveners on the issue of the interest rate forecast

Requested Order



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Requested Order with Proposed IRFRF

4.3% Combined Rate increase

- 2.0% Rate Increase
plus
- 2.3% IRFRF based on best estimate '50/50' interest rate forecast

Rate Stabilization Reserve

RSR Targets with proposed 4.3% based on best estimate '50/50' interest rate forecast:

- \$159 million DCAT based minimum (lower) RSR target
 - \$411 million 100% MCT based maximum (upper) RSR target
-
- No RSR Rebuilding Fee



Key Factors Driving the Requested Order

2.0% Rate Increase:

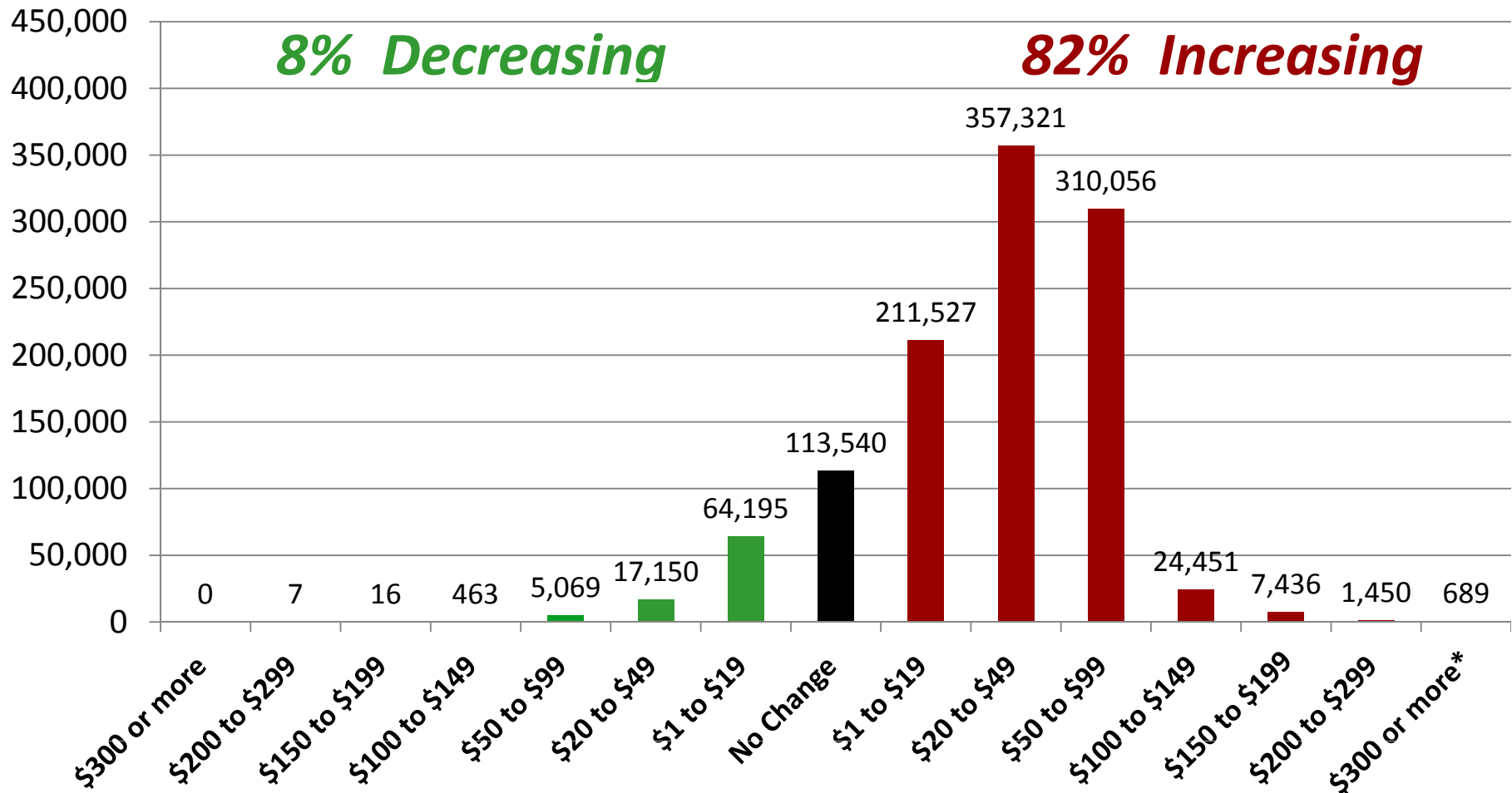
- Claims experience
 - Comprehensive Claims
- Investment Income
 - Fixed income performing poorly

Interest Rate Forecast Risk Factor:

- Third party interest rate forecasts
- Need for a ‘best estimate’ of breakeven net income

2017 Rate Change – 4.3% Combined

No. of vehicles



* All Taxis, except 2 vehicles



Rate and Rebate History

Year	Percent	Cumulative % Rate Change Approved (2001/02 Base)	Rebate \$	Cumulative Rebate \$
2016/17	0.0	-9.69%		\$ 597,000,000
2015/16	+3.4	-9.69%		\$ 597,000,000
2014/15	+0.9	-12.66%		\$ 597,000,000
2013/14	0.0	-13.44%		\$ 597,000,000
2012/13	-8.0	-13.44%		\$ 597,000,000
2011/12	-4.0	-5.92%		\$ 597,000,000
2010/11	0.0	-2.00%	\$ 336,000,000	\$ 597,000,000
2009/10	-1.0	-2.00%		\$ 261,000,000
2008/09	0.0	-1.01%	\$ 63,000,000	\$ 261,000,000
2007/08	-2.6	-1.01%	\$ 60,000,000	\$ 198,000,000
2006/07	0.0	1.64%	\$ 58,000,000	\$ 138,000,000
2005/06	-1.0	1.64%		\$ 80,000,000
2004/05	+3.7	2.66%		\$ 80,000,000
2003/04	-1.0	-1.00%		\$ 80,000,000
2002/03	0.0	0.00%	\$ 80,000,000	\$ 80,000,000
2001/02	0.0	0.00%		



Interest Rate Forecast Risk Factor



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Need for an IRFRF

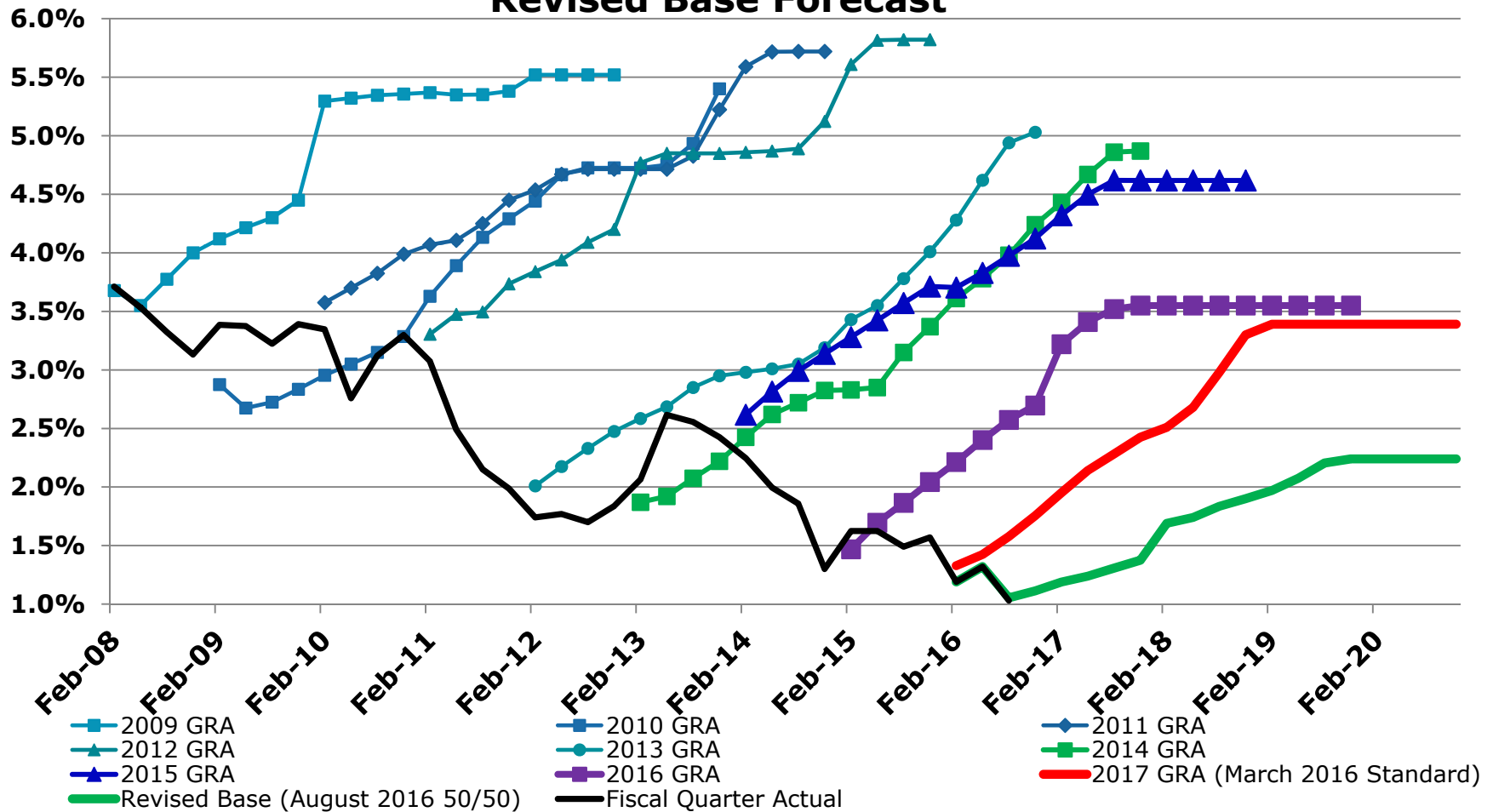
Interest rate forecast is a core element of Basic ratemaking

- The Standard interest rate forecast, based on forecasts produced by third parties have consistently overstated the interest rate forecast relative to actual results
- Consistent with Dr. Cleary's view and the historical evidence, the Standard Interest Rate Forecast is unlikely to materialize in the near future
- The Corporation does not believe that the standard interest rate forecast is a "best estimate"

There is a clear track record of the Standard forecast (and underlying third party forecasts) not materializing

Standard Interest Rate Forecast

GOC 10 Year Forecasted Rates From 2008 to 2016, Actual and Revised Base Forecast





Impacts to Net Income

MPI's interest rate forecast impacts the net income forecast

- If high forecasted interest rates are not achieved, investment income is too low and a net loss is generated

Material Impact on forecasted Net Income:

Basic Net Income - ALM (Match to Corporate)

(including 2017 GRA 2% Rate Increase)

(\$ millions)

Interest Rate Forecast	Fiscal Years					Avg. of Rating Yrs
	2016/17	2017/18	2018/19	2019/20	2020/21	
Standard	(18.2)	(8.4)	7.3	4.7	3.8	(0.6)
Flat	(37.6)	(38.1)	(27.3)	(35.2)	(40.7)	(32.7)
Difference	(19.5)	(29.7)	(34.6)	(39.8)	(44.5)	(32.2)



Interest Rate Forecasting Risk

Interest Rate Forecasting Risk Defined as:

- i. Aggressive third party interest rate forecasts may not materialize
 - ii. Basic Autopac premiums set based on these forecasts will lead to a deficiency in premiums
 - iii. The magnitude of the risk is estimated by the difference in forecasted net income when Standard Interest Rate Forecast doesn't materialize
- The higher interest rates are forecasted to be, the more risk of loss exists when they don't materialize
- Not the same as "Interest Rate Risk"
 - Net impact of changes in interest rates to the value of the fixed income portfolio and claims liabilities



Proposed IRFRF

The proposed IRFRF is necessary to:

- i) Arrive at a 'best estimate' forecast of breakeven net income
- ii) Safeguard the financial health of Basic and the Corporation
- iii) Reduce the prospect of rate shock in future years
- iv) Maintain public confidence in Manitoba Public Insurance and the public auto insurance model over the long term



IRFRF – Collaborative Process

Board Order 128/15 (10.14) directed MPI to use the Standard Interest Rate Forecast

- MPI has complied with that Order
- Interest Rate Forecasting Risk remains as a result

Interest Rate Forecasting Risk Factor proposed alleviates that risk, while complying with the Order

From the outset MPI proposed a collaborative process with the PUB and Interveners to:

- build a consensus on the need for the risk factor
- explore options for the appropriate form and magnitude of the risk Factor

Technical Conference was held on August 16th, 2016:



IRFRF – Technical Conference

Technical Conference Objectives:

- 1) Review relief sought in the 2017 GRA
- 2) Understand the need for the IRFRF
- 3) Understand what is not a viable solution
- 4) Explore options for the form and magnitude of IRFRF

Dr. Sean Cleary presented his assessment of the Standard Interest Rate Forecast



IRFRF – Technical Conference (cont'd)

Recommended Form of the IRFRF:

- Risk Factor Rate Increase

Set the Magnitude based on factors such as:

- Historical Observation
- Risk Tolerance adjustment to the forecast
- Incorporating the Naïve forecast with a weighting (50/50)



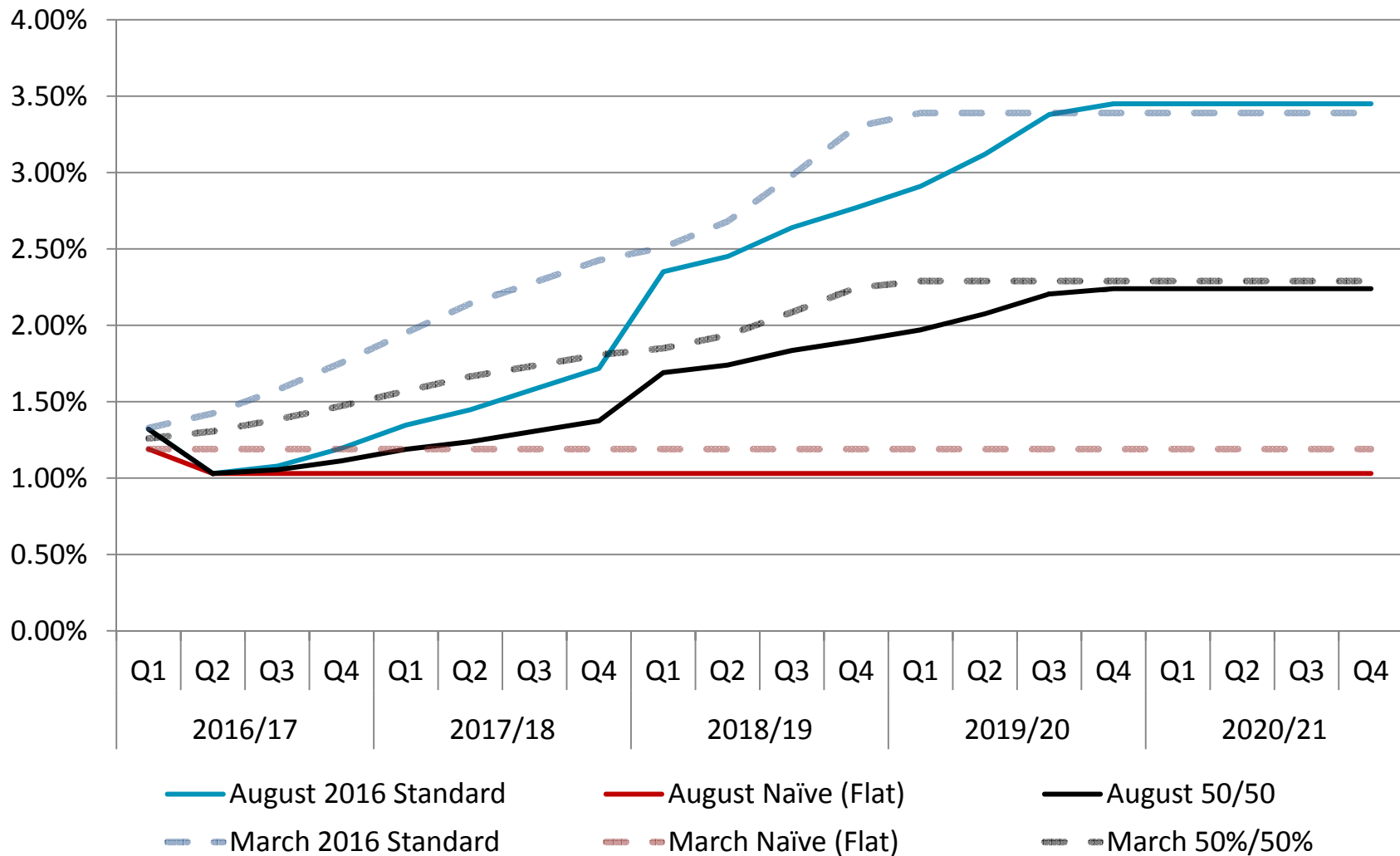
Risk Factor Rate Increase

A Risk Factor Rate Increase would take the following form:

$$\text{Combined Rate Increase (\%)} = \text{Rate Increase with Standard Forecast(\%)} + \text{IRFRF (\%)}$$

- Corporation recommends basing the proposed IRFRF on a 50/50 weighting of the Standard and naïve forecasts
 - Results in a 2.3% IRFRF
- 50/50 interest rate forecast, taken as the simple average on a quarterly basis, of the Standard and the naïve forecast
- Following chart illustrates the 50/50 Interest Rate Forecast using August 2016 data

"50/50" Interest Rate Forecast





Breakeven Net Income under 50/50

- 50/50 interest rate forecast results in a 4.3% rate increase overall to breakeven on Basic
- 4.3% comprised of:
 - 2% as requested in the 2017 GRA
 - 2.3% IRFRF

(\$ millions)		2016/17	2017/18	2018/19	Rating Years
August 50/50 Scenario 4.3% Rate Increase	Net Income	(\$34.7)	(\$25.2)	\$24.7	\$0.3
	Total Equity	\$196.3	\$194.2	\$213.1	



IRFRF Implementation

- 2% base increase, plus 2.3% IRFRF should be implemented as a 4.3% combined rate increase
- Different levels of impacts to major classes under a combined rate increase
 - Appropriate that interest rates impacts are properly reflected among major classes
- However, some major classes are more sensitive to interest rates, than others



Conclusions

- IRFRF is needed to get to a best estimate of break-even net income
 - The SIRF is not a best estimate
- MPI proposes that the 50/50 interest rate forecast is a best estimate
 - Results in a 2.3% IRFRF
 - Should be implemented as a combined rate increase
- Impacts to the motorcycle major class can be remedied
 - Details in the coming section



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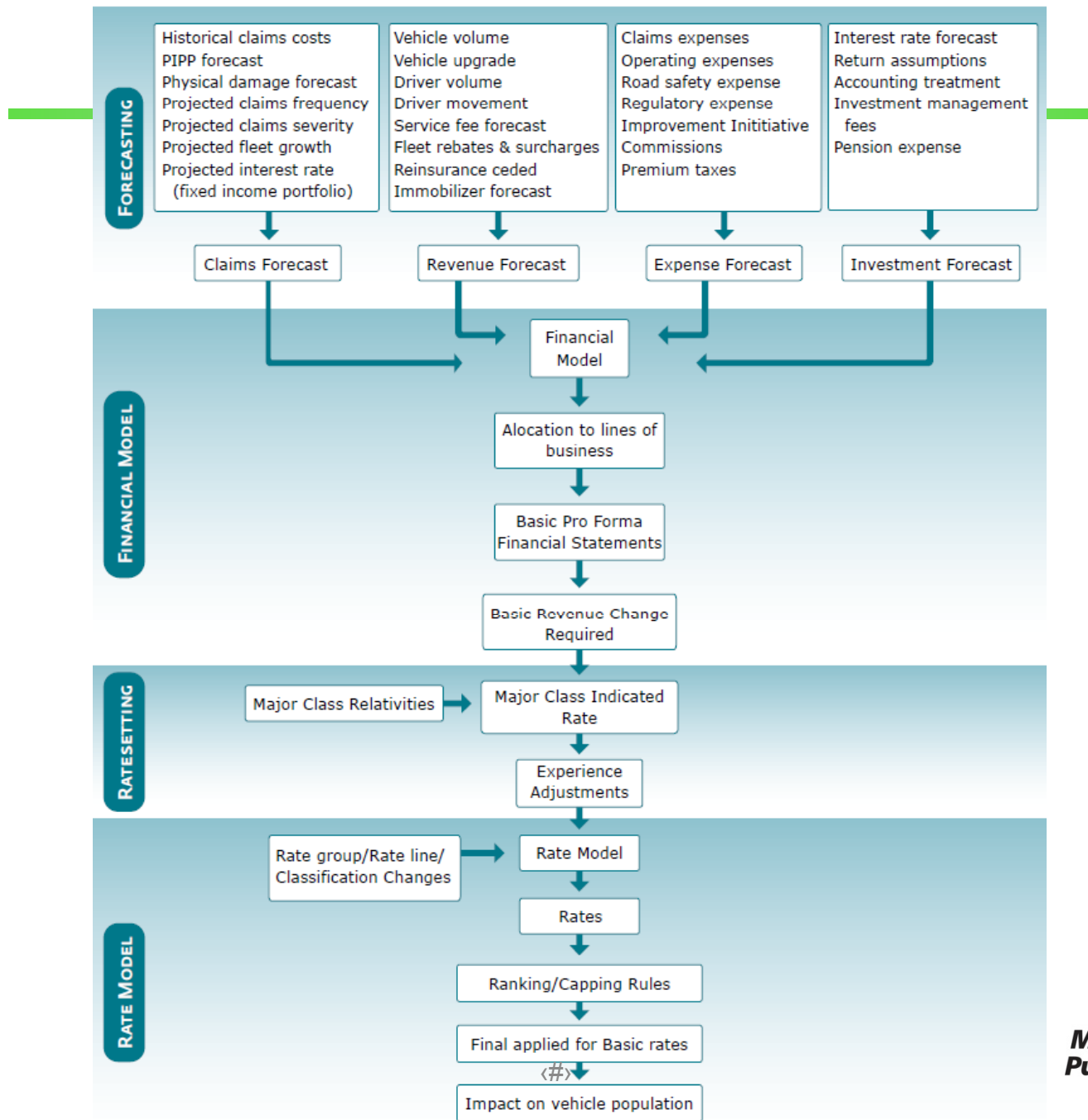
2017/18 Indicated Rates

Based on the 50/50 Interest Rate Forecast



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RATE SETTING FRAMEWORK





Major Class Impacts

2017/18 Indicated Rates

Major Class	2% Overall Rate Increase	4.3% Combined Rate Increase	4.3% Combined Rate Increase (with Motorcycle Adjustment)
Private Passenger	1.7%	3.9%	4.0%
Commercial	5.9%	10.2%	10.3%
Public	3.7%	6.4%	6.5%
Motorcycles	-2.1%	8.8%	2.4%
Trailers	13.4%	11.4%	11.4%
ORVs	-31.4%	-31.3%	-31.3%
Overall	2.0%	4.3%	4.3%



Motorcycle Major Class

- Impact to Motorcycles from the proposed IRFRF is a 10.9% rate increase (from -2.1% to 8.8%)
- MPI proposes one-time only adjustment to the motorcycle ratemaking methodology
 - The Corporation views this one-time adjustment as being consistent with sound ratemaking principles, and necessary to achieve the desirable outcome of limiting rate shock to the motorcycle major class.
- MPI uses 10 years of historical experience to determine motorcycle indicated rates.
 - However, the 2006 year (i.e. the 10th year of the historical period) has an abnormally high level of PIPP losses.



Motorcycle Major Class

- The Corporation proposes that for the 2017 GRA only motorcycle rates be calculated based on the 9 year historical average
- This change in methodology would cause the initial +8.8% rate indication for motorcycles to fall to +2.4%
 - 2006 experience would have been removed from the 10 year average calculation in the 2018 GRA
- Significantly reduces the impact of the “best estimate” interest rate forecast on the motorcycle major class, while preserving the overall effect on Basic Net Income

2017/18 Indicated Rates after Capping

Major Class	Vehicle Count	Current Avg. Rate	Proposed Avg. Rate	Indicated Rate Change	Experience Rate Change
Private Passenger	781,301	\$1,001	\$1,041	4.0%	4.0%
Commercial	45,401	\$684	\$744	10.3%	8.8%
Public	12,301	\$1,887	\$2,008	6.5%	6.4%
Motorcycles	15,591	\$757	\$778	2.4%	2.8%
Trailers	191,163	\$64	\$71	11.4%	10.2%
Off-Road Vehicles	67613	\$12	\$12	-31.3%	0.0%
Overall	1,113,370	\$773	\$807	4.3%	4.3%

Based on August '50/50' interest rate forecast

2017/18 Average Rating Period Forecast

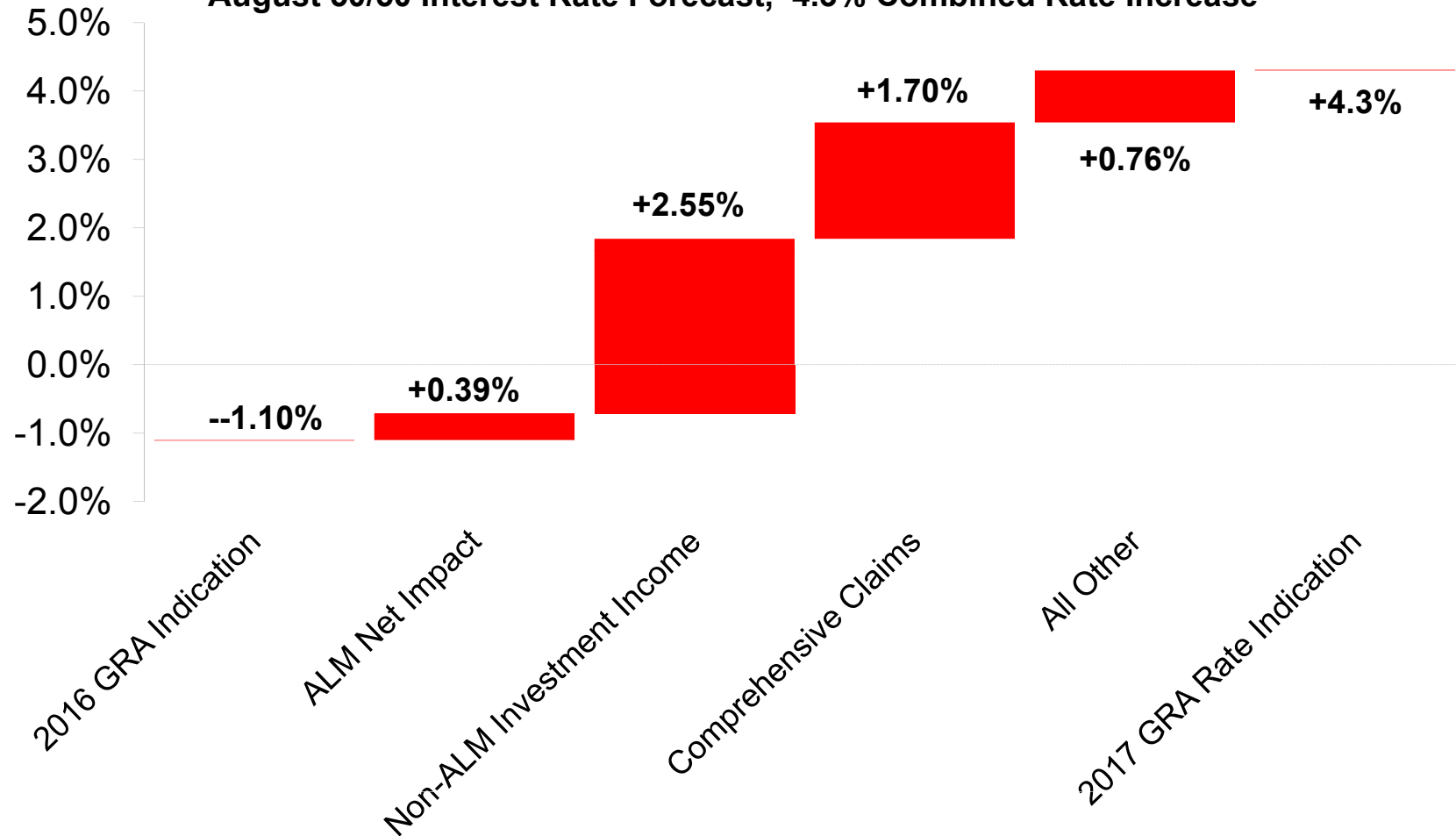
(\$ millions)	2016 GRA	2017 GRA*	Better/ (Worse)
Earned Revenues	1,003.6	1,034.1	\$30.5
Net Claims Incurred	810.7	823.3	(\$12.6)
Interest Rate Impact	(53.0)	(56.2)	\$3.2
Total Claims incurred	757.7	767.1	(\$9.4)
Total Expenses	294.9	298.3	(\$3.4)
Investment Income	97.4	77.0	(\$20.4)
Interest Rate Impact	(40.7)	(46.0)	(\$5.3)
Net Investment Income	56.7	31.0	(\$25.7)
Net Income (Loss)	\$7.7	(\$0.3)	(\$8.0)

*Based on August '50/50' interest rate forecast



2017/18 Rate Indication

Forecast Revisions from the 2016 GRA to the Revised 2017 GRA
August 50/50 Interest Rate Forecast, 4.3% Combined Rate Increase





ALM & Non-ALM - Rating Impact

- The net impact from the Asset and Liability Management (ALM) program relative to last year's forecast was a \$2.8M reduction in net income (+0.39%).
- The majority of the proposed rate increase (2.55%) is a result of changes to the non-ALM forecast:
 - \$10.2M reduction in interest income
 - \$8.9M reduction in bond amortization



Comprehensive Claims - Rating Impact

- The comprehensive claims forecast was increased mainly as a result of significantly higher than expected hail claims counts in the 2015/16 year. Hail claims incurred was \$52.7 million over budget in 2015/16.

Impact: \$12.1 million reduction in net income or +1.70% rate increase



“All Other” - Rating Impacts

- The All Other category resulted in a 0.76% increase in the 2017/18 rates. This category includes the impacts from:
 - A higher expense forecast: \$1.5M decrease in net income
 - A deterioration in investment income from equities and alternatives: \$1.4M decrease in net income
 - Combination of all other revenue, claims, expense, and investment income forecasts: \$2.2M decrease in net income



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Rate Stabilization Reserve



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Rate Stabilization Reserve

Updated RSR Definition

- The purpose of the RSR is to protect motorists from rate increases that would otherwise have been necessary due to *unexpected variances from forecasted results* and due to events and losses arising from non-recurring events and factors.
 - Unexpected and non-recurring events or factors include variances from a best estimate break-even budget
 - These variances, both positive and negative flow through retained earnings to the RSR



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

Rate Stabilization Reserve

100% MCT based Upper Total Equity Target



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MCT Based Upper RSR Target

The MCT is a standardized test based on 2015 Office of the Superintendent of Financial Institutions (OSFI) Guideline

Assesses the key risks faced by the industry

- Risk based approach that better reflects the riskiness of individual Property & Casualty insurers and is consistent with approaches in other financial sectors
- Assesses the riskiness of assets, policy liabilities, and off-balance sheet exposures, by applying various factors

Harmonizes capital requirements across jurisdictions in Canada

- The MCT provides objective information about the risk level of the Basic program and how that risk level compares to other automobile insurers (both public and private).
- Using MCT in this manner allows the Board to assess the adequacy of the RSR relative to the risk levels established for other regulated insurers.



MCT Based Upper RSR Target – Cont'd

MCT is used by other public auto-insurance companies in Canada

ICBC

- Minimum equity reserve target 100% MCT
- Maximum equity reserve target 165% MCT

SGL

- Equity reserve target 100% MCT



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 when one already exists

Rate Stabilization Reserve

DCAT based Lower Total Equity Target



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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 \$159 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 Results before Management Action

Adverse Scenarios *before* Management Action

Total Equity (\$ millions)

Scenario	2016/17	2017/18	2018/19	2019/20	2020/21
Base	\$196	\$194	\$213	\$230	\$247
Combined	\$196	\$93	\$18	(\$4)	\$2
Interest Rate Decline	\$196	\$179	\$167	\$156	\$146
Equity Decline	\$196	\$148	\$124	\$99	\$108
High Loss Ratio	\$196	\$154	\$140	\$132	\$85



DCAT Results – ‘50/50’ Interest Rates

Adverse Scenarios *before* Management Action Minimum Capital Test (MCT) Ratios

Scenario	2016/17	2017/18	2018/19	2019/20	2020/21
Base	37.2%	32.1%	37.5%	38.8%	45.1%
Combined	37.2%	4.4%	-17.8%	-23.0%	-16.2%
Interest Rate Decline	37.2%	27.5%	23.1%	18.5%	19.9%
Equity Decline	37.2%	20.0%	13.1%	5.0%	11.5%
High Loss Ratio	37.2%	21.2%	17.3%	13.6%	5.3%



Before Management Action

- The most adverse 1-in-40 year scenario before Management action is the four year combined interest rate, equities, and claims incurred scenario.
- Total Equity balance of (\$56M), or a reduction of \$303M from the base forecast by the end of 2020/21
- Example: Over a 4 year period:
 - Interest rates at 1.02%
 - Cumulative equity returns of 5.4%
 - Ultimate claims of \$72M over budget
- Other combinations produce the same result at the 1-in-40 year risk level



Management and Regulatory Action

Assumptions

- Maximum combined rate increase and/or additional RSR rebuilding fee in a given rate application is 5.0%
- No capital transfers between lines of business
 - as of February 29, 2016 there was minimal amounts of excess capital in the competitive lines of business
- 2018/19 rate application could be impacted by the results of adverse scenarios if the impacts of these scenario were apparent by the time the Corporation released its second quarter financial statements
- The adverse scenarios will impact the rate and RSR rebuilding fee proposals in the 2019/20 and 2020/21 rate applications.



DCAT Results after Management Action

Combined Scenarios *including* Management Action **Total Equity (\$ millions)**

Scenario	2016/17	2017/18	2018/19	2019/20	2020/21
Base	\$196	\$194	\$213	\$230	\$247
1 year	\$196	\$53	\$41	\$35	\$21
2 year	\$196	\$93	\$38	\$39	\$69
3 year	\$196	\$120	\$72	\$70	\$149
4 year	\$196	\$125	\$87	\$67	\$145



DCAT Results after Management Action

Combined Scenarios *including* Management Action **Total Equity *Difference from Base* (\$ millions)**

Scenario	2016/17	2017/18	2018/19	2019/20	2020/21
Base	\$196	\$194	\$213	\$230	\$247
1 year	\$0	(\$141)	(\$172)	(\$194)	(\$226)
2 year	\$0	(\$101)	(\$175)	(\$191)	(\$179)
3 year	\$0	(\$74)	(\$141)	(\$160)	(\$99)
4 year	\$0	(\$69)	(\$126)	(\$163)	(\$102)



DCAT Results after Management Action

Combined Scenarios *including* Management Action Minimum Capital Test (MCT) Ratios

Scenario	2016/17	2017/18	2018/19	2019/20	2020/21
Base	37.2%	32.1%	37.5%	38.8%	45.1%
1 year	37.2%	-6.9%	-11.2%	-12.6%	-11.2%
2 year	37.2%	4.4%	-11.9%	-11.4%	1.1%
3 year	37.2%	11.9%	-2.3%	-3.2%	21.0%
4 year	37.2%	13.0%	2.0%	-3.9%	20.0%



DCAT Results after Management Action

Combined Scenario Basic Total Equity *after Management Action* Minimum Total Equity Balance as of the end of Fiscal 2016/17

Scenario	2016/17	2017/18	2018/19	2019/20	2020/21
1 year	\$143	\$0	(\$13)	(\$18)	(\$32)
2 year	\$159	\$55	\$0	\$1	\$30
3 year	\$127	\$51	\$2	\$0	\$78
4 year	\$131	\$59	\$21	\$0	\$78

Basic currently has sufficient Total Equity to withstand all adverse scenarios (including management and regulatory action) at the 1-in-40 year probability level.



After Management Action

- The most adverse 1-in-40 year scenario after Management action is the two year combined interest rate, equities, and claims incurred scenario.
- Total Equity balance of \$38M, or a reduction of \$175M from the base forecast by the end of 2018/19
- Example: Over a 2 year period:
 - Interest rates at 1.02%
 - Cumulative equity returns of -12.8%
 - Ultimate claims of \$37M over budget
- Other combinations produce the same result at the 1-in-40 year risk level



Satisfactory Future Financial Condition

- All DCAT 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 of February 29, 2016



RSR - Conclusion

The RSR under the 50/50 Interest Rate Forecast:

Minimum Total Equity Target: \$159 million

- Revised DCAT based on 1-in-40 year adverse scenario

Maximum Total Equity Target: \$411 million

- Based on 100 % MCT

Basic RSR (Total Equity) at August 31, 2016: \$231 million



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2015/16 Financial Results



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2015/16 Results - Basic

(\$millions)	2017 GRA - Actual	2016 GRA - Budget	Better/ (Worse)
Earned Revenues	881.4	883.4	(2.0)
Total Claims Incurred	742.7	690.8	(51.9)
Interest Rate Impact	(75.3)	(101.9)	(26.6)
Net Claims incurred	666.4	588.9	(77.5)
Claims Expenses	131.6	132.5	0.9
Expenses	135.4	136.2	0.8
Total Investment Income	48.5	75.0	(26.5)
Interest Rate Impact	(52.5)	(85.8)	(33.3)
Investment Income (Loss)	(4.0)	(10.8)	6.8
Net Income (Loss)	(56.0)	15.0	(71.0)



2015/16 Results (cont'd)

- (\$33.3M) – higher physical damage claims;
 - (\$52.6M) in comprehensive – a 12.2% increase in hail claims
 - \$17.8 M in collision
 - \$1.5 M in property damage
- (\$34.6) – higher non interest PIPP claims
- \$6.7M – net impact of interest rates between direct claims liabilities & fixed income assets
(-\$26.6 claims, \$33.3 fixed income)



2015/16 Results (cont'd)

- \$15.0M – change in DPAC write-down from Feb, 2015
- (\$26.5M) – lower than expected investment income from equities and alternative assets
- \$1.7M – combined impact of all other factors

2016/17 YTD Results



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YTD Financial Results - Basic

(\$millions)	Actual	Budget	Better/(Worse)
Earned Revenues	468.8	469.4	(0.6)
Net Claims Incurred	389.6	357.6	(32.0)
Interest Rate Impact	82.8	(36.9)	(119.7)
Total Claims Incurred	472.4	320.7	(151.7)
Claims Expenses	66.2	69.7	3.5
Expenses	69.7	71.2	1.5
Investment Income	36.8	45.9	(9.1)
Interest Rate Impact	50.0	(26.8)	76.8
Net Investment Income (Loss)	86.8	19.1	67.7
Net Income (Loss)	(\$52.7)	\$26.9	(\$79.6)

For the six months ended August 31, 2016



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Basic YTD Financial Results(cont'd)

- (\$5.7M) - Actuarial adjustment on PIPP
- (\$3.3M) – Higher direct PIPP claims incurred
- (\$22.1) - Unfavorable physical damage experience
- (\$42.9M) - Unfavorable net impact of interest rates
 - (-\$119.7M claims + \$76.8M bonds)
- \$5.0M – Lower Claims handling and Operating expenses
- (\$9.1M) - lower return on equity and alternative investments
- (\$1.5M) - all other impacts

2016/17 Updated Forecast



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2016/17

(\$millions)	2017 GRA-Budget	2016 GRA- Forecast	Better/ (Worse)
Earned Revenues	933.8	934.9	(1.1)
Net Claims Incurred	767.1	762.6	(4.5)
Interest Rate Impact	9.6	(85.5)	(95.2)
Total Claims Incurred	776.8	677.1	(99.7)
Claims Expenses	138.5	139.5	1.0
Expenses	143.7	142.4	(1.3)
Investment Income	79.4	82.6	(3.2)
Interest Rate Impact	11.4	(69.8)	81.2
Net Investment Income (Loss)	90.8	12.8	78.0
Exclude: DPAC/Premium Deficiency Adjustment	(0.3)	n/a	(0.3)
Net Income (Loss)	(\$34.7)	(\$11.4)	(\$23.3)

Based on actual interest rates up to August 31, 2016





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Basic Expenses

Based on the 50/50 Interest Rate Forecast



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Basic Total Average Expenses

- Total average expenses 2017 rating period (2017/18 & 2018/19)- \$228.8M
- 2016 GRA Forecast total average rating period (2017/18 & 2018/19) - \$227.0M
- Difference – \$1.8M
- Increase related to a revised increased forecast for Road Safety / loss prevention initiatives



Basic Total Average Expenses (cont'd)

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

Basic Share of Normal Operating Expenses

(\$millions)	2014/15 Actual	2015/16 Actual	2016/17 Budget	2017/18 Forecast	2018/19 Forecast
Compensation	115.2	121.1	124.3	127.6	131.2
Data Processing	16.2	16.3	18.6	17.5	19.7
Other	49.1	50.9	53.0	53.7	56.2
Subtotal	180.5	188.3	195.9	198.7	207.1
% increase (decrease)	2.8%	4.3%	4.0%	1.4%	4.3%
Amortization / Depreciation	18.3	14.0	16.7	16.5	16.9
% increase (decrease)	43.0%	(30.7)%	19.3%	(1.0)%	2.4%
Total Normal Operating Expenses	198.8	202.3	212.6	215.2	224.0
% Increase / (Decrease)	5.5%	1.8%	5.1%	1.2%	4.1%



Basic Normal Ops Expenses (cont'd)

- Once again Normal Operating Expenses are not the driver in the rate increase request
- The Basic average normal operating expenses forecasted in the rating years (2017/18 and 2018/19) is \$219.6 million
- MPI is containing overall increases in normal operating expenses despite contractual commitments for salary increases of 1.75% and pay scale increases of 1.75% in 2017/18 and 2018/19 respectively
- Total Compensation Increases of 2.6% and 2.8% respectively

Basic Share of Compensation Expenses

(\$millions)	2014/15 Actual	2015/16 Actual	2016/17 Budget	2017/18 Forecast	2018/19 Forecast
Gross Salaries	128.7	131.4	136.4	140.4	144.9
Vacancy Allowance	-6.2	-5.5	-6.2	-6.4	-6.7
Overtime	2.1	1.7	2.0	2.1	2.2
Benefits	27.6	30.7	31.6	33.0	33.9
H & E Tax	2.6	2.7	2.9	3.0	3.0
Total Compensation Expenses	154.8	161.0	166.7	172.0	177.3
Basic Allocation %	74.4%	75.2%	74.6%	74.2%	74.0%
Total Compensation Expenses Basic Share	115.2	121.1	124.3	127.6	131.2
% Increase / (Decrease)	2.7%	5.1%	2.6%	2.7%	2.8%



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
- New contract – September 2016 – September 2020
 - 2.0%(1% plus 1% market sup), 1.5% (1% plus 0.5% market sup), 2.0%, 2.75%
- Steps on scale - 3.5% (imbedded in Union contract) estimated at 50% or 1.75%



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)

Basic Share of Improvement Initiative Expenses

(\$ millions)	2014/15 Actual	2015/16 Actual	2016/17 Budget	2017/18 Forecast	2018/19 Forecast
Implementation Expenses	5.4	3.1	6.1	5.0	6.1
Ongoing Expenses	1.9	1.5	0.1	3.5	3.7
Total Improvement Initiative Expenses	7.3	4.6	6.2	8.5	9.8
% Increase / (Decrease)	-32.4%	-37.0%	34.8%	37.1%	15.3%

- The increase related to ongoing expenses in 2017/18 and 2018/19 is primarily due to the expected start of amortization for PDR – Collaborative Estimating, Infor-Lawson upgrade, and Corporate Learning Management System



Basic Capitalized Costs

(\$ millions)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Deferred Costs	5.4	14.9	24.6	14.8	17.6	20.6	24.5	22.0
Capital Expenditures	0.0	1.0	0.0	0.0	0.3	3.0	0.0	0.0
TOTAL	5.4	15.9	24.6	14.8	17.6	23.6	24.5	22.0

- 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

Cost Containment

Details



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Cost Containment - Progress

Area	Rating Year Savings	
	Corporate	Basic
Postage	\$1.6 Million	\$1.1 Million
Data Center Operations	\$3.2 Million	\$2.55 Million
Pembina Service Center (5 staff)	\$0.3 Million	\$0.26 Million
PDR (25 Staff)	\$2.5 Million	\$2.25 Million
Staffing Strategy (15 FTE)	\$1.1 Million	\$0.9 Million

Total of \$7.98 Million in Cost savings to Basic over the 2017 GRA Rating years



Agenda - Revisited

1. Requested Order
2. Interest Rate Forecast Risk Factor
3. 2017/18 Indicated Rates
4. Rate Stabilization Reserve
 - i. MCT
 - ii. DCAT
5. 2015/16 Financial Results
6. 2016/17 Year to Date Results
7. Expenses
8. Cost Containment
- 9. Investment Income**
10. Benchmarking
11. Conclusions

Investment Income

Based on the 50/50 Interest Rate Forecast



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Basic Investment Income

(\$ millions)	2013/14	2014/15	2015/16	2016/17 (F)	2017/18 (F)	2018/19 (F)
TOTAL	147.7	188.4	(4.0)	90.8	36.3	25.7

- Based on 50/50 interest rate forecast
- Actual and forecasted volatility in investment income
- 2015/16 actual was mainly driven by lower than expected income from equities, and an equity write-down.
- 2017/18 and 2018/19 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

	2016/17	2017/18	2018/19
Corporate Interest Rate Impact	Budget	Forecast	Forecast
Gain/(Loss) on Marketable Bonds	\$13.3	(\$37.1)	(\$71.7)
Claims Liabilities Increase (Decrease)	\$9.8	(\$34.1)	(\$80.0)
Net Income Increase (Decrease)	\$3.5	(\$3.0)	\$8.3

- The 3 year average Corporate impact from 2016/17 to 2018/19 was \$2.9 million, which is a relatively small impact on an approximate \$1.2 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 \$10.3 million)
- By implementing the ALM strategy, the average positive impact of rising interest rates over the rating years was reduced

	2016/17	2017/18	2018/19
Basic Interest Rate Impact	Budget	Forecast	Forecast
Gain/(Loss) on Marketable Bonds	\$11.4	(\$31.6)	(\$60.4)
Claims Liabilities Increase (Decrease)	\$9.7	(\$33.6)	(\$78.8)
Net Income Increase (Decrease)	\$1.7	\$2.1	\$18.4



Interest Rate Forecast – Sept 50/50

- If the rate increase had been based on the 50/50 forecast at September 30 2016, a 4.4% rate increase would have been requested.

Scenario (\$millions)		2016/17	2017/18	2018/19	Rating Years
Sept 50/50 Scenario	Net Income	(\$34.1)	(\$25.3)	\$24.7	(\$0.3)
4.4% Rate Increase	Total Equity	\$197.0	\$195.0	214.3	

Benchmarking

Details



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Benchmarking Results And Trends

Ward Group Findings

	2011/12	2012/13	2013/14	2014/15	Canadian Benchmark Group 2014/15
Corporate Performance Measures					
Total gross expenses as a % of GPW	31.17%	32.03%	30.42%	29.89%	36.64%
Total gross expenses per policy in force	\$295	\$288	\$282	\$286	\$490
Claims Performance Measures					
Claims expense as a % of GPW	7.34%	7.21%	6.91%	6.60%	7.59%
Claims expense per reported claim	\$282	\$264	\$244	\$257	\$892
Total Gross Expenses per Reported Claim	\$1,198	\$1,170	\$1,073	\$1,166	\$4,306
FTE Efficiency Measures					
FTEs per 100,000 Reported Claims	579	560	523	548	1281
Mgmt per 100,000 Reported Claims	69	72	62	69	182
Staff per 100,000 Reported Claims	511	488	462	479	1099

Conclusions



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Conclusions

- Requesting an order for 2.0% rate increase, plus IRFRF
 - Based on the ‘best estimate’ 50/50 interest rate forecast the IRFRF should be 2.3%
 - IRFRF should be implemented as a combined 4.3% rate increase
- If PUB approves a 4.3% combined rate increase then the RSR targets are as follows:
 - \$159 million lower total equity target (DCAT based)
 - \$411 million upper total equity target (100% MCT based)
- No RSR rebuilding fee