

**PUB (MPI) Pre-Ask 1**

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**Preamble:****Question:**

- a) Please file an update to PUB/MPI 2-7 (a-g) reflecting the most current Bank forecasts.
- b) Using the same Bank forecasts in (a) and based on MPI's 50/50 interest rate forecast proposal, please provide the schedule of forecasted interest rates and related pro-formas.

**RESPONSE:**

- a) In discussions with PUB counsel and advisors it was agreed the pre-ask would be modified to reflect the content as attached.
- b) Please see Attachment A and B.

October 18, 2016

## 2017 Rate Application Information Requests - Pre-Ask PUB (MPI) Pre-Ask 1 (b) Attachment A

### September 2016: Standard, Naïve and 50/50 Interest Rate Forecast

Government of Canada 10 Year Bond Yield Forecast							Standard	Naïve	50/50
	BMO NB	CIBC	Global	RBC	Scotia	TD			
2016 Q1									
Q2									
Q3	1.07%	1.06%	1.10%	1.15%	1.10%	1.30%	1.13%	1.00%	1.07%
Q4	1.18%	1.25%	1.39%	1.25%	1.15%	1.40%	1.27%	1.00%	1.14%
2017 Q1	1.23%	1.45%	1.69%	1.40%	1.25%	1.45%	1.41%	1.00%	1.21%
Q2	1.27%	1.50%	1.84%	1.60%	1.30%	1.50%	1.50%	1.00%	1.25%
Q3	1.31%	1.60%	2.04%	1.75%	1.50%	1.65%	1.64%	1.00%	1.32%
Q4	1.34%	1.80%	2.17%	1.90%	1.45%	1.75%	1.74%	1.00%	1.37%
2018 Q1			2.34%				2.34%	1.00%	1.67%
Q2			2.43%				2.43%	1.00%	1.72%
Q3			2.62%				2.62%	1.00%	1.81%
Q4			2.76%				2.76%	1.00%	1.88%
2019 Q1			2.90%				2.90%	1.00%	1.95%
Q2			3.11%				3.11%	1.00%	2.06%
Q3			3.37%				3.37%	1.00%	2.19%
Q4			3.44%				3.44%	1.00%	2.22%
2020 Q1			3.44%				3.44%	1.00%	2.22%
Q2			3.44%				3.44%	1.00%	2.22%
Q3			3.44%				3.44%	1.00%	2.22%
Q4			3.44%				3.44%	1.00%	2.22%

Standard forecast is based on the average of the 5 banks and Global Insight.

Naïve forecast is based on the existing level of the GoC 10 year Bond Rate as at September 30, 2016.

50/50 forecast is 50% weighting Standard forecast and 50% weighting Naïve forecast.

#### Data sources dates:

BMO NB as of September 23, 2016 (Average of Period)

CIBC as of September 8, 2016 (End of Period)

Global Insight, September 2016 (Average Period)

RBC as of September 2016 (End of Period)

Scotiabank as of September 6, 2016 (End of Period)

TD as of September 22, 2016 (End of Period)

## PF.1

## STATEMENT OF OPERATIONS

Manitoba Public Insurance  
Multi-year - Statement of Operations

## 2017 GRA - 4.40% Basic Rate Change with September 50/50 Interest Rate Forecast

(C\$ 000s, rounding may affect totals)

	For the Years Ended February,					
	2016A	2017B	2018F	2019F	2020F	2021F
<b>BASIC</b>						
Motor Vehicles	854,170	893,420	977,210	1,021,821	1,069,045	1,118,583
Drivers	46,618	50,393	52,908	55,180	57,424	59,626
Reinsurance Ceded	(12,423)	(11,632)	(11,876)	(12,114)	(12,356)	(12,603)
<b>Total Net Premiums Written</b>	<b>888,365</b>	<b>932,181</b>	<b>1,018,242</b>	<b>1,064,887</b>	<b>1,114,113</b>	<b>1,165,606</b>
<b>Net Premiums Earned</b>						
Motor Vehicles	827,701	875,348	938,551	1,001,239	1,047,257	1,095,727
Drivers	45,787	48,478	51,645	54,039	56,298	58,521
Reinsurance Ceded	(12,423)	(11,632)	(11,876)	(12,114)	(12,356)	(12,603)
<b>Total Net Premiums Earned</b>	<b>861,065</b>	<b>912,194</b>	<b>978,320</b>	<b>1,043,164</b>	<b>1,091,199</b>	<b>1,141,645</b>
Service Fees & Other Revenues	20,351	21,557	23,227	25,128	27,103	29,028
<b>Total Earned Revenues</b>	<b>881,416</b>	<b>933,751</b>	<b>1,001,547</b>	<b>1,068,292</b>	<b>1,118,302</b>	<b>1,170,673</b>
<b>Net Claims Incurred</b>	742,664	766,938	790,438	842,150	876,611	918,547
(a) Claims Incurred - Interest Rate Impact	(75,300)	6,298	(29,185)	(77,020)	(42,634)	(2,241)
<b>Total Claims Incurred</b>	<b>666,404</b>	<b>773,236</b>	<b>761,253</b>	<b>765,130</b>	<b>833,977</b>	<b>916,306</b>
Claims Expense	118,614	125,191	128,706	133,421	141,161	148,285
Road Safety/Loss Prevention	13,027	13,318	13,251	14,145	14,135	14,260
<b>Total Claims Costs</b>	<b>798,045</b>	<b>911,745</b>	<b>903,210</b>	<b>912,696</b>	<b>989,273</b>	<b>1,078,851</b>
<b>Expenses</b>						
Operating	71,641	76,908	78,242	82,683	83,608	88,347
Commissions	33,862	35,616	37,696	40,157	41,941	43,813
Premium Taxes	26,205	27,715	29,706	31,658	33,107	34,627
Regulatory/Appeal	3,675	3,421	3,494	3,567	3,641	3,719
<b>Total Expenses</b>	<b>135,383</b>	<b>143,660</b>	<b>149,138</b>	<b>158,065</b>	<b>162,297</b>	<b>170,506</b>
<b>Underwriting Income (Loss)</b>	<b>(52,012)</b>	<b>(121,654)</b>	<b>(50,801)</b>	<b>(2,469)</b>	<b>(33,268)</b>	<b>(78,684)</b>
<b>Investment Income</b>	48,477	79,406	68,089	85,583	79,974	87,130
(b) Investment Income - Interest Rate Impact	(52,515)	8,581	(27,996)	(59,065)	(37,594)	(0)
<b>Net Investment Income</b>	<b>(4,038)</b>	<b>87,987</b>	<b>40,093</b>	<b>26,518</b>	<b>42,380</b>	<b>87,130</b>
<b>Net Income (Loss) from Operations for Rate Setting</b>	<b>(71,009)</b>	<b>(34,146)</b>	<b>(25,301)</b>	<b>24,675</b>	<b>5,850</b>	<b>5,724</b>
Add: DPAC / Premium Deficiency adjustment	(14,959)	(479)	(14,593)	626	(3,263)	(2,722)
<b>Net Income (Loss)</b>	<b>(56,050)</b>	<b>(33,667)</b>	<b>(10,708)</b>	<b>24,049</b>	<b>9,112</b>	<b>8,446</b>
<b>Total net impact due to interest rate change (b) - (a)</b>	<b>22,785</b>	<b>2,283</b>	<b>1,189</b>	<b>17,955</b>	<b>5,040</b>	<b>2,241</b>

## PF.2

## STATEMENT OF FINANCIAL POSITION

Manitoba Public Insurance  
Multi-year - Statement of Financial Position

2017 GRA - 4.40% Basic Rate Change with September 50/50 Interest Rate Forecast

(C\$ 000s, rounding may affect totals)

	For the Years Ended February,					
	2016A	2017B	2018F	2019F	2020F	2021F
<b>BASIC</b>						
<b>Assets</b>						
Cash and cash equivalents	29,114	10,752	9,643	10,816	11,069	13,794
Investments	2,083,349	2,213,236	2,261,167	2,292,018	2,352,396	2,467,816
Investment property	35,789	40,424	40,999	41,272	41,823	42,974
Due from other insurance companies	25	-	-	-	-	-
Accounts receivable	375,262	302,393	326,467	340,017	354,340	369,296
Deferred policy acquisition costs	4,782	2,620	19,623	20,279	24,900	29,049
Reinsurers' share of unpaid claims	998	-	-	-	-	-
Property and equipment	88,740	86,248	88,863	90,183	90,345	91,720
Deferred development costs	65,414	70,462	77,341	79,991	81,701	64,385
	<b>2,683,473</b>	<b>2,726,135</b>	<b>2,824,103</b>	<b>2,874,576</b>	<b>2,956,574</b>	<b>3,079,034</b>
<b>Liabilities</b>						
Due to other insurance companies	152	113	113	113	113	113
Accounts payable and accrued liabilities	38,861	29,447	30,993	31,499	32,418	33,959
Financing lease obligation	3,278	2,968	2,899	2,825	2,752	2,678
Unearned premiums and fees	453,389	475,671	518,769	543,935	570,581	598,586
Provision for employee current benefits	16,871	16,527	16,880	17,244	17,616	17,999
Provision for employee future benefits	281,209	286,836	302,414	319,313	336,739	354,910
Provision for unpaid claims	1,658,713	1,717,555	1,757,065	1,745,369	1,764,420	1,820,638
	<b>2,452,473</b>	<b>2,529,117</b>	<b>2,629,133</b>	<b>2,660,298</b>	<b>2,724,639</b>	<b>2,828,883</b>
<b>Equity</b>						
Retained earnings	194,496	160,830	150,122	174,171	183,283	191,729
Basic Insurance Retained Earnings	-	-	-	-	-	-
Accumulated Other Comprehensive Income	36,504	36,187	44,846	40,107	48,654	58,423
<b>Total Equity</b>	<b>231,000</b>	<b>197,017</b>	<b>194,968</b>	<b>214,278</b>	<b>231,937</b>	<b>250,152</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,683,473</b>	<b>2,726,134</b>	<b>2,824,101</b>	<b>2,874,576</b>	<b>2,956,576</b>	<b>3,079,035</b>

## PF.2

## STATEMENT OF FINANCIAL POSITION

Manitoba Public Insurance  
Multi-year - Statement of Changes in Equity

2017 GRA - 4.40% Basic Rate Change with September 50/50 Interest Rate Forecast

(C\$ 000s, rounding may affect totals)

	For the Years Ended February,					
	2016A	2017B	2018F	2019F	2020F	2021F
<b>BASIC</b>						
<b>Retained Earnings</b>						
Beginning Balance	177,817	194,497	160,830	150,122	174,171	183,283
Net Income (Loss) from annual operations	(56,050)	(33,667)	(10,708)	24,049	9,112	8,446
Premium Rebate	0	0	0	0	0	0
Transfer (to) / from Non-Basic Retained Earnings	72,729	0	0	0	0	0
<b>Total Retained Earnings</b>	<b>194,496</b>	<b>160,830</b>	<b>150,122</b>	<b>174,171</b>	<b>183,283</b>	<b>191,729</b>
<b>Retained Earnings</b>						
Equity Reserve	194,496	160,830	150,122	174,171	183,283	191,729
Excess Retained Earnings	0	0	0	0	0	0
<b>Total Retained Earnings</b>	<b>194,496</b>	<b>160,830</b>	<b>150,122</b>	<b>174,171</b>	<b>183,283</b>	<b>191,729</b>
<b>Total Accumulated Other Comprehensive Income</b>						
Beginning Balance	35,262	36,504	36,187	44,846	40,107	48,654
Other Comprehensive Income for the Year	1,242	(317)	8,659	(4,740)	8,547	9,769
<b>Total Accumulated Other Comprehensive Income</b>	<b>36,504</b>	<b>36,187</b>	<b>44,846</b>	<b>40,107</b>	<b>48,654</b>	<b>58,423</b>
<b>Total Equity Balance</b>	<b>231,000</b>	<b>197,017</b>	<b>194,968</b>	<b>214,278</b>	<b>231,937</b>	<b>250,152</b>
<b>RESERVE TARGETS</b>						
DCAT Total Equity Target	213,000	231,000	159,000	159,000	159,000	159,000
MCT Total Equity Target	325,000	366,000	411,000	411,000	411,000	411,000