CAC (MPI)

CAC (MPI) 2-1 **Reference: CAC (MPI) 1-3 Collaborative Estimating Initiative**

Preamble: The response in part states "…enabling the automation of payments to repair shops. In the short-term, there is an incremental increase in expenses due to software licensing."

a) Please elaborate whether the collaborative estimating for electronic supplemental processing and the automation of payments to repair shops, without adjuster review and approval will increase or decrease claims incurred "leakage" over time.

b) Please discuss the internal controls in place to manage the collaborative estimating process between body shops and MPI.

c) Please confirm that the incremental increase in expenses due to software licensing is a one-time cost, if not please provide the annual costs.

RESPONSE:

a) The expense in question is a software licensing expense and is not linked to claims leakage nor an impact to claims control processes.

b) The internal controls have not materially changed. The same groups within the Corporation continue to approve those expenses; only utilizing a different system.

c) The increase in software expense noted is an annual cost. However, as provided in CAC (MPI) 1-3, this increase in expense is temporary and will be offset as all the benefits for the Physical Damage Re-Engineering program are implemented and realized (details provided in PUB (MPI) 1-75).

CAC (MPI) 2-2 **Reference: CAC (MPI) 1-4 Rate Setting Framework**

Preamble: The response in part states "...validate the activity against other systems of record. As a result of these controls, if a system defect is discovered, then the defect resolution process (Unified Production Support Process) is initiated..."

a) Please elaborate and describe the "other systems of record".

b) Please list and, in general, describe the number of defects experienced during the last fiscal year by the claims systems.

RESPONSE:

a) Other systems of record include the Lawson financial system that processes financial activities that are subsequently captured in the claims system. In addition, certain information is stored in multiple databases and these elements are verified for data integrity.

b) Providing the list of defect that this information request has requested has no bearing in determining the reasonableness of the rate increase being requested. The Unified Production Support Process is an operational process that is in place to ensure that the defect resolution process is managed effectively. Defect resolution processes are common business practice and best practice for system maintenance and support. Providing the number and details of defects experienced during the last fiscal year is of little value without the operational and system expertise to interpret. As the defects are operational in nature, providing the details could also violate claimant confidentiality in many instances. In addition, the defect process tracks all system tasks including operational requests, system enhancements, and security access requests. As noted, these tasks are operational in nature and not germane to the rate setting forecast.

CAC (MPI) 2-3 **Reference: CAC (MPI) 1-8 Salvage Vehicle Sales**

Please complete the following table:

Vehicle Sales	2012/13			2013/14		
	Amount ($000)	Units #	Average $	Amount ($000)	Units #	Average $
Vehicles – Winnipeg				$26,659		
Vehicles – Rural				1,091		
Vehicles – Tender				5,926		
Retained ITC				1,395		
Total				**$35,071**		
Expenses				2,730		
Net recovery				**$32,341**		

ITC – GST input tax credit

RESPONSE:

See table below:

Vehicle Sales	2012/13			2013/14		
	Amount ($000)	Units #	Average $	Amount ($000)	Units #	Average $
Vehicles – Winnipeg	$24,137	18,239	1,323	$26,659	20,077	1,328
Vehicles – Rural	2,505	2,010	1,246	1,091	986	1,106
Vehicles – Tender	4,644	5,647	822	5,926	6,142	965
Retained ITC	1,312	-		1,395	-	
Total	**$32,598**	**25,896**	1,208	**$35,071**	**27,205**	1,238
Expenses	2,049			2,730		
Net recovery	**$30,549**		1,180	**$32,341**		1,189

CAC (MPI) 2-4 **Reference: CAC (MPI) 1-9**
Insurance contracts

Preamble: "Complementing this is the use of underlying statistical data. The Corporation uses the data as reported in its claims database in a structured, consistent manner each year."

Please list the liabilities for policy contracts other than insurance contracts included in policy liabilities.

RESPONSE:

The Corporation has no other liabilities for policy contracts other than insurance contracts.

CAC (MPI) 2-5 **Reference: CAC (MPI) 1-14 Claims Incurred at 12-month**

Preamble: ..."The Corporation starts by forecasting the accident year ultimate incurred losses and then uses the development assumptions to project 'backwards' the paid and incurred losses from ultimate to 12 months."

For each PIPP coverage, please compare the calculated at 12 month claims incurred based on the development assumptions compared to the actual at 12 month claims incurred for fiscal years 2011/12 to 2013/14. Please explain any significant differences.

RESPONSE:

Per the Appointed Actuary's Reports (Volume III, AI.7), the ultimate loss estimates for PIPP coverages in the most recent three accident years are not based directly on the chain ladder method. As a result, direct application of the paid or incurred loss development factors to the 12, 24, or 36 month figures will not (in general) produce the projected ultimate value. The development between the latest paid or reported amount and the ultimate value is calculated by applying the assumed percentage paid or percentage reported that is implied by the selected loss development factors in the Appointed Actuary's report.

The requested information is shown in the following table. Per CAC (MPI) 1-29 and CAC (MPI) 2-11, Weekly Indemnity case reserves were underreported in the last three accident years resulting in at 12 month reported incurred amounts that were lower than those expected based on historical loss development patterns.

Incurred @ 12 months ($000)	2011/12		2012/13		2013/14	
	Actual	Calculated	Actual	Calculated	Actual	Calculated
Weekly Indemnity	$23,600	$31,955	$26,132	$31,208	$24,290	$29,634
ABO-Indexed	$64,186	$47,174	$52,255	$49,910	$53,359	$48,509
ABO-NonIndexed	$22,187	$24,449	$20,915	$23,245	$19,800	$20,951

CAC (MPI) 2-6 **Reference: CAC (MPI) 1-15 Negative development for collision**

Preamble: The response states: "Negative development is a result of the amounts received from the salvage of vehicles." The response to CAC (MPI) 1-8 (b), in part, states: "Basic claims incurred are forecasted based on historical experience and growth factors as part of the actuarial forecast and the past history of salvage is taken into consideration on a historical average perspective."

If the past history of salvage recoveries is included in the actuarial forecast, why would there be negative development as a result of salvage sales. Please explain.

RESPONSE:

The reported and paid data presented in the triangles in AI.7 (Volume III Review of Policy Liabilities) include amounts recovered as a result of salvage, which is the reason for negative development (i.e. development factors less than 1.0000).

CAC (MPI) 2-7

Reference: **CAC (MPI) 1-20**
Collision claims incurred at 12 month

Please complete the tables below based on the attachment to CAC (MPI) 1-20:

Collision with Wildlife					
	2011/12A	2012/13A	2013/14A	2014/15P	2015/16P
Frequency (# of covers)					
Severity ($)					
Incurred ($000)	$26,787	$29,257	$28,261	$29,880	$31,728

A – Actual P – Projected

Collision					
	2011/12A	2012/13A	2013/14A	2014/15P	2015/16P
Frequency (# of covers)					
Severity ($)					
Incurred ($000)	$239,204	$265,710	$296,529	$311,334	$330,369

Total Collision					
	2011/12A	2012/13A	2013/14A	2014/15P	2015/16P
Frequency (# of covers)					
Severity ($)					
Incurred ($000)	$265,991	$294,967	$324,790	$341,214	$362,097

RESPONSE:

Collision with Wildlife					
	2011/12A	2012/13A	2013/14A	2014/15P	2015/16P
Frequency (# of covers)	9,795	10,365	9,028	9,186	9,347
Severity ($)	$2,735	$2,823	$3,130	$3,253	$3,395
Incurred ($000)	$26,787	$29,257	$28,261	$29,880	$31,728

A – Actual P – Projected

Collision					
	2011/12A	2012/13A	2013/14A	2014/15P	2015/16P
Frequency (# of covers)	97,518	103,991	105,262	107,104	108,978
Severity ($)	$2,453	$2,555	$2,817	$2,907	$3,032
Incurred ($000)	$239,204	$265,710	$296,529	$311,334	$330,369

Total Collision					
	2011/12A	2012/13A	2013/14A	2014/15P	2015/16P
Frequency (# of covers)	107,313	114,356	114,290	116,290	118,325
Severity ($)	$2,479	$2,579	$2,842	$2,934	$3,060
Incurred ($000)	$265,991	$294,967	$324,790	$341,214	$362,097

CAC (MPI) 2-8 **Reference: CAC (MPI) 1-20 Collision and Comprehensive Claims**

Please provide the following claims data on an accident year basis for years 2011/12, 2012/13 and 2013/14 in the following format for the coverages identified:

Total Collision			
Claims incurred range ($)	Claims Incurred ($)	Number of Claims	Average Claims Incurred ($)
Under $500			
$500 to $750			
$751 to $1,000			
$1,001 to $2,000			
$2,001 to $3,000			
Over $3,001			

Total Comprehensive			
Claims incurred range ($)	Claims Incurred ($)	Number of Claims	Average Claims Incurred ($)
Under $500			
$500 to $750			
$751 to $1,000			
$1,001 to $2,000			
$2,001 to $3,000			
Over $3,001			

RESPONSE:

See attached.The figures are as of 12 months development and also include any claims with zero or less dollars incurred to reflect what is shown in the tables for CAC (MPI) 1-20.

Total Collision for Accident Year 2013/14 at 12 months			
Claims incurred range ($)	**Claims Incurred ($)**	**Number of Claims**	**Average Claims Incurred ($)**
Under $500	$3,421,555	24,610	$139
$500 to $750	$5,529,427	8,942	$618
$751 to $1,000	$6,816,062	7,856	$868
$1,001 to $2,000	$33,533,524	23,042	$1,455
$2,001 to $3,000	$35,987,672	14,632	$2,460
Over $3,001	$239,520,028	35,025	$6,839

Total Collision for Accident Year 2012/13 at 12 months			
Claims incurred range ($)	**Claims Incurred ($)**	**Number of Claims**	**Average Claims Incurred ($)**
Under $500	$4,122,323	27,393	$150
$500 to $750	$5,601,578	9,062	$618
$751 to $1,000	$6,780,780	7,819	$867
$1,001 to $2,000	$33,982,256	23,379	$1,454
$2,001 to $3,000	$35,902,376	14,620	$2,456
Over $3,001	$208,591,642	31,823	$6,555

Total Collision for Accident Year 2011/12 at 12 months			
Claims incurred range ($)	**Claims Incurred ($)**	**Number of Claims**	**Average Claims Incurred ($)**
Under $500	$3,964,564	27,004	$147
$500 to $750	$5,195,434	8,379	$620
$751 to $1,000	$6,496,747	7,475	$869
$1,001 to $2,000	$32,242,181	22,181	$1,454
$2,001 to $3,000	$33,647,266	13,697	$2,457
Over $3,001	$184,460,622	28,304	$6,517

Total Comprehensive for Accident Year 2013/14 at 12 months			
Claims incurred range ($)	Claims Incurred ($)	Number of Claims	Average Claims Incurred ($)
Under $500	$5,041,512	26,591	$190
$500 to $750	$2,249,691	3,680	$611
$751 to $1,000	$1,742,122	2,013	$865
$1,001 to $2,000	$7,238,901	4,999	$1,448
$2,001 to $3,000	$8,056,810	3,274	$2,461
Over $3,001	$44,715,582	7,072	$6,323

Total Comprehensive for Accident Year 2012/13 at 12 months			
Claims incurred range ($)	Claims Incurred ($)	Number of Claims	Average Claims Incurred ($)
Under $500	$5,203,868	28,534	$182
$500 to $750	$2,273,421	3,740	$608
$751 to $1,000	$1,968,204	2,260	$871
$1,001 to $2,000	$8,809,940	6,102	$1,444
$2,001 to $3,000	$9,396,717	3,806	$2,469
Over $3,001	$39,854,688	6,711	$5,939

Total Comprehensive for Accident Year 2011/12 at 12 months			
Claims incurred range ($)	Claims Incurred ($)	Number of Claims	Average Claims Incurred ($)
Under $500	$4,746,900	28,048	$169
$500 to $750	$2,081,587	3,424	$608
$751 to $1,000	$2,103,416	2,415	$871
$1,001 to $2,000	$7,955,712	5,523	$1,440
$2,001 to $3,000	$8,263,852	3,339	$2,475
Over $3,001	$44,133,121	7,284	$6,059

CAC (MPI) 2-9 **Reference: CAC (MPI) 1-21 and PUB (MPI) 1-52 (a)**

Preamble: "In December 2013 through January 2014 the Corporation was implementing the new Mitchell WorkCentre system."

a) Please describe the new Mitchell WorkCentre system.

b) Please provide the annual savings and operating costs of the new Mitchell WorkCentre system.

RESPONSE:

a) While the response to this question is not germane to the 2015 rates, a description of the Mitchell Work Centre System can be found at: http://www.mitchell.com/claims-management-software/insurance-claims-processing/index-insurance-claims-software.asp

b) Refer to Volume III AI.10 PD Re-engineering Program Charter.

CAC (MPI) 2-10 **Reference: CAC (MPI) 1-22 (a) and CAC (MPI) 1-33**

Preamble: The response states in part: "The Corporation's forecasts are based on annual data."

Please file the requested information in CAC (MPI) 1-22 (a), on a quarterly basis consistent with the published quarterly financial statements, for fiscal years' 2012/13 and 2013/14.

RESPONSE:

See attached. Note that the data provided is the year-to-date (by quarter) net claims incurred for Basic only.

Manitoba Public Insurance
Automobile Insurance Division - Basic
Claims Incurred Comparison

	2012/13 Q1	2013/14 Q1	Increase (Decrease) To Previous Year	2012/13 Q2	2013/14 Q2	Increase (Decrease) To Previous Year	2012/13 Q3	2013/14 Q3	Increase (Decrease) To Previous Year	2012/13 Q4	2013/14 Q4	Increase (Decrease) To Previous Year
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Collision	64,118	76,969	12,851	126,825	141,493	14,668	208,590	227,367	18,777	318,570	374,106	55,536
Comprehensive	14,831	13,978	(853)	49,629	42,972	(6,657)	66,978	67,826	848	74,772	77,579	2,807
Property Damage	9,957	9,372	(585)	19,288	16,910	(2,378)	28,703	27,007	(1,696)	42,370	48,193	5,823
	88,906	100,319	11,413	195,742	201,375	5,633	304,271	322,200	17,929	435,712	499,878	64,166

Manitoba Public Insurance
Automobile Insurance Division - Basic
Claims Frequency Comparison

	2012/13 Q1	2013/14 Q1	Increase (Decrease) To Previous Year	2012/13 Q2	2013/14 Q2	Increase (Decrease) To Previous Year	2012/13 Q3	2013/14 Q3	Increase (Decrease) To Previous Year	2012/13 Q4	2013/14 Q4	Increase (Decrease) To Previous Year
	#	#	#	#	#	#	#	#	#	#	#	#
Collision	26,910	32,592	5,682	51,633	56,084	4,451	82,966	86,321	3,355	120,532	124,066	3,534
Comprehensive	13,479	12,627	(852)	35,251	31,230	(4,021)	50,731	48,410	(2,321)	60,654	57,701	(2,953)
Property Damage	17,436	20,266	2,830	32,809	35,716	2,907	49,572	52,484	2,912	72,489	76,198	3,709
	57,825	65,485	7,660	119,693	123,030	3,337	183,269	187,215	3,946	253,675	257,965	4,290

Manitoba Public Insurance
Automobile Insurance Division - Basic
Claims Severity Comparison

	2012/13 Q1	2013/14 Q1	Increase (Decrease) To Previous Year	2012/13 Q2	2013/14 Q2	Increase (Decrease) To Previous Year	2012/13 Q3	2013/14 Q3	Increase (Decrease) To Previous Year	2012/13 Q4	2013/14 Q4	Increase (Decrease) To Previous Year
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Collision	2,383	2,362	(21)	2,456	2,523	67	2,514	2,634	120	2,643	3,015	372
Comprehensive	1,100	1,107	7	1,408	1,376	(32)	1,320	1,401	81	1,233	1,344	112
Property Damage	571	462	(109)	588	473	(114)	579	515	(64)	585	632	48
	1,538	1,532	(6)	1,635	1,637	1	1,660	1,721	61	1,718	1,938	220

CAC (MPI) 2-11 **Reference: CAC (MPI) 1-29 (b) and (c) and Overview page 8**

Preamble: Per page 8 – Overview it states: "A comprehensive review of existing injury claims that resulted in a significant increase in loss reserves for prior years; claims. Impact (net of interest rate adjustments) = ($26) million."

In response to CAC (MPI) 1-29 (c) it states in part: "The Corporation held relatively small amounts of IBNR in these accident years, as it was assumed that all open PIPP claims more than three years old were adequately case reserved."

a) Please reconcile the $26 million increase in loss reserves for 2013/14 to the Attachment part of CAC (MPI) 1-29 (b) and explain the differences.

b) Please identify and/or explain the sources for the budget of $79,824,873 for 2013 as shown on the Attachment to CAC (MPI) 1-29 (b).

c) Please elaborate on the steps the Corporation has put in place to ensure PIPP claims will be adequately case reserved, per the corporate PIPP claims reserving guidelines, to avoid or mitigate policy liability valuation errors for future years?

RESPONSE:

a) PIPP fiscal year claims incurred were $26 million over budget in 2013/14. This figure is calculated by adding the 2013/14 deviations from budget for each PIPP coverage in the Claims Incurred section of the Rate Application (Weekly Indemnity: +$26.8M; ABO-Indexed: +$5.6M; ABO-Non-Indexed: +6.7M; PIPP Enhancements: -$13.5M). The *main* cause (but not the only cause) of the overall $26 million deviation from budget was the higher than expected increase in case reserves from the comprehensive review of injury claims. The table in CAC (MPI) 1-29 (b) will not reconcile to this amount.

b) The source of the budget is from the claims forecasting exhibits in the 2014 Rate Application. Claims Incurred, Exhibit 1, Table 4 of the 2014 Rate Application shows that the budgeted reported losses for Weekly Indemnity in fiscal 2013/14 are $70.2 million for all accident years and $43.5 million excluding the current accident year. Similarly, Claims Incurred, Exhibit 2, Table 4 of the 2014 Rate Application shows that the budgeted reported losses for ABO-Indexed in fiscal 2013/14 are $63.5 million for all accident years and $10.4 million excluding the current accident year. The sum of these two coverages is the source of the budget shown in the attachment ($133.7M for all accident years; $53.9 excluding the current year).

c) In addition to the regular review and audits of PIPP claims, the Corporation has put in place the following additional measures: improved monthly reporting on paid and incurred PIPP losses by accident year relative to budget; monthly tracking reports on open PIPP claims counts and average payment amounts relative to benchmarks; improved monthly reporting on any significant changes in reserves for individual PIPP claims.

CAC (MPI) 2-12 Reference: CAC (MPI) 1-36

Preamble: The response states: "The Other Financial Adjustments represents the Allowance for Doubtful Accounts."

a) Please describe the source or type of account to which the allowance for doubtful accounts applies.

b) Please file a copy of the policy for the allowance for doubtful accounts described in a) above.

c) Please file a historical analysis for the last three fiscal years relating to the allowance for doubtful accounts described in a) above (i.e. the receivable amount, the number of accounts, the doubtful allowance taken and the reason for the account to be doubtful).

RESPONSE:

a) The source of the allowance for doubtful accounts is from the accounts receivable.

b) The answer to this information request has no bearing in determining the reasonableness of the rate increase being requested. As per page 55 of the Claims Incurred section (Volume II), the Corporation does not forecast for an increase/decrease in the allowance during the forecast period.

c) Allowance for Doubtful Accounts is disclosed in the annual financial statements (for February 28, 2014 in Note 24, page 36 of the Universal Compulsory Automobile Insurance annual audited financial statements).

   The respective Corporate Annual Reports and Corporate Audited Financial Statements for the last three years can be found at:

http://www.mpi.mb.ca/en/Newsroom/Pages/annualreports.aspx

The respective Universal Compulsory Automobile Insurance annual audited financial statements for the last three years can be found as part of the General Rate Applications at:

http://mpi.mb.ca/en/Newsroom/Pages/rate-application.aspx

CAC (MPI) 2-13 Reference: CAC (MPI) 1-41 (b)

Preamble: The response, on page 3, in part states: "...as well as building expenses (closure of two buildings in 2012/13 relating to other lines of business increased the amount of building expenses allocated to Basic in 2013/14 by 14.3% or approximately $1.7 million)."

a) Please explain where the business activities for the other lines of business (previously handled in the now closed buildings) are currently administered and why would the same portion of operating expenses not be allocated to the non-basic lines of business, if they are still maintained?

b) Please explain why the operating expenses would not have proportionately decreased as a result of the closure of two buildings and, in fact, potentially reduce the building operating expenses allocated to basic insurance if, in fact, some of the non basic activities are handled in currently basic insurance premises.

c) As per the attachment, please provide the supporting working papers for the Basic allocation increases year over year of:

- Compensation – Salaries 1.9%
- Special services 8.5%
- Building expenses 14.3%
- Telephone/Telecommunications 6.0%

RESPONSE:

a) The two buildings that were closed were the former DVA outlets. When a building is closed and the staff is transferred to another premise, a portion of the new building occupied by the staff performing DVA functionality will be allocated to the line of business based on square footage. The allocation to line of business is not in the same proportion as a separate outlet as there was a reduction in the square footage occupied by the transferred in staff.

b) The two buildings were vacant at the time of their closure and all staff had previously been transferred to other buildings. The related expenses were due to fulfilling the lease obligation for these buildings. A portion of the square footage occupied in the current location as well as the vacant square footage was used to allocate building expense to the non-basic line of business. The response in CAC (MPI) 1-41 b) should have indicated building closures are only one of several factors contributing to the increased Basic building expenses. See part c)

c) As previously described in CAC (MPI) 1-41, the specific allocation drivers, including Claims Incurred, WCCCR, and project driven Business Transformation Office percentages, all contributed to an increase in Basic expense in 2013/14 over 2012/13. These factors affect all the expense categories in question.

Special Services expense also varies year over year as many of these costs are a onetime occurrence and the distribution to Basic is dependent on the allocators for the particular department incurring the special services expense.

The increase in building expense is also due to an increase in expense attributable to Basic offset by a decrease in non-Basic related expense. In 2012/13 there was a large onetime non basic building expense incurred which did not occur in 2013/14.

The change in basic telephone expense is primarily due to the centralization of telephone/telecommunication expense in the Information Technology Services accounting unit in 2013/14.

CAC (MPI) 2-14 **Reference: CAC (MPI) 1-42**

Preamble: The response states: "The amounts are not available at this time".

With respect to the cost containment strategy of a hiring freeze, out-of-province travel and meeting expenses, is there to be an expected financial impact on the 2015/16 basic insurance rates? If yes, has the amount been included in the financial forecasts?

RESPONSE:

There is not expected to be a financial impact on the 2015/16 rates based on the cost containment strategy. The cost containment strategy is an ongoing necessity in order to achieve the forecasted expenditure amounts.

CAC (MPI) 2-15 **Reference: CAC (MPI) 1-70**

Preamble: The response states: "For the 2014/15 budget, the Corporation centralized all postage expenses within the Administrative Services unit. This unit is allocated 100% to operating expenses. This approach remains consistent throughout the forecast period."

a) For fiscal year 2015/16 the projected postage expense for basic insurance is $4,473,000. Please provide an approximate split between operating expenses and claims expenses, if postage was used for claims activity mailings.

b) If postage expenses are not allocated to claims expenses, please elaborate on what the financial impact would be on the policy liabilities valuation amount relating to ILAE if postage expenses were allocated to claims expenses?

c) Is the Corporation planning, for the next GRA, to review the expense allocation formulas to correct the postage expense allocation between operating and claims expenses? If not, why not.

d) Please elaborate on the impact on fleet rebates/surcharges if the allocation to claims expenses is over or under stated (refer to CAC (MPI) 1-106).

RESPONSE:

a) To clarify, in 2015/16 total Basic postage is $3,016,000 and corporate postage is $4,473,000. Assuming the proportion of Basic postage remains the same as 2013/14, the 2015/16 approximate split would be $1,553,000 allocated to Basic Claims expense and $1,463,000 allocated to Basic Operating expense.

b) If postage expenses were allocated to claims expenses, the financial impacts on the policy liabilities valuation would be a negligible reduction.

c) The Corporation does not have any plans to revert back to decentralized postage expenses. The impact to basic from this change is negligible.

d) Claims expenses are not factored in when determining fleet rebate/surcharges and therefore this change in allocation has no impact.

CAC (MPI) 2-16 **Reference: CAC (MPI) 1-71**

Preamble: The response states: "Staff impacted by the transition have been redeployed/retrained to support corporate priorities".

Please confirm that with the move/contract to using IBM Data Centre managed service model at a cost of about $7 million per year, the Corporation has not realized any tangible cost savings.

RESPONSE:

By moving to the IBM Data Centre managed services model, the Corporation has reduced the investment required to achieve the corporate objectives, as outlined in the IT Optimization program. The IBM Data centre managed services model avoids the significant future capital investment required to maintain and replace data centre infrastructure, and provides the resilience, scalability, and risk reduction benefits of a world class facility. Additional ongoing benefits include improved efficiency and effectiveness in IT operations as the Corporation leverages IBM's world-class skills, processes and tools, to better support key corporate initiatives and further enable emerging technologies.

CAC (MPI) 2-17 **Reference: CAC (MPI) 1-110**

Preamble: Risk based interest rate forecasting methodology …"stretched the forecasted increase over ten years instead of five"

Please advise if the Corporation is aware of any other company that is using the "risk based interest rate forecasting methodology" as defined by MPI. If yes, please elaborate.

RESPONSE:

We are not aware of any other companies that are using the MPI risk adjusted interest rate forecasting methodology as it was created by MPI based on our risk tolerance.

CAC (MPI) 2-18 Reference: CAC (MPI) 1-136

Preamble: Volume II, Investment Income, Attachment E, page 3 indicates an unrealized gain in Canadian Equities of $76.5 million as at Feb 28, 2014. Volume III, Universal Compulsory Automobile Insurance Annual Financial Statement for the fiscal year ended February 28, 2014 on page 2 reports a net loss from operations of ($69.1) million.

Please confirm that had the unrealized gain in Canadian Equities been realized before Feb 28, 2014 Basic Insurance would have essentially broken even for fiscal year 2013/14.

RESPONSE:

The answer to this information request has no bearing in determining the reasonableness of the rate increase being requested.

As stated in the Investment Policy Statement supplied in Volume III, Investment Income, Appendix A, of the Rate Application:

> "It is a statutory requirement that the Corporation, pursuant to the requirements of the Act, pay to the Minister of Finance (the "Minister"), all moneys in any reserves established under Section 18 of the Act and such additional moneys as are not immediately required for the purposes of the Corporation as are available for investment. The moneys paid will be invested in accordance with The Financial Administration Act. The Minister has charged the Department of Finance (the "Department") with the operational management of the Fund.
>
> Any investment counsel, advisors or custodians that may be required to advise on the Corporation's investments will be engaged on a basis satisfactory to the Minister where applicable, subject to authorization by the Lieutenant Governor in Council."

As a result, this question is asking to assess decision making made by the Department of Finance and their advisors and custodians. This is historical information and decision making that does not factor into the forecast of the investment income. The information sought has no bearing on the 2015 rates.

CAC (MPI) 2-19 **Reference: CAC (MPI) 1-153 (a)**

Preamble: The response to CAC (MPI) 1-153 (a) indicates "See PUB (MPI) 1-98".

The response reference seems to be inaccurate, please provide the correct reference.

RESPONSE:

Please refer to PUB (MPI) 1-4(b).

CAC (MPI) 2-20 **Reference: CAC (MPI) 1-153 (b) and CAC (MPI) 1-156; PUB (MPI) 1-4 (a)**

Preamble: Accounting for the proposed 1% RSR rebuilding fee

Please file a copy of the following:

a) PUB Board Order No. 179/01 pages 23 to 27. Please indicate whether MPI believes it's proposal is in accordance with the intent of Order 179/01.

b) From the 2002 MPI GRA please file a copy of tables TI.14 [sic] Statement of Retained Earnings and TI.15 [sic] Comparison of Operating Results.

RESPONSE:

a) Please see attached. The Corporation believes the proposal is in accordance with the intent of Order 179/01 in that the RSR target being proposed (to which the Corporation falls vastly below) is risk based (based on DCAT analysis) and takes into account the Minimum Capital Test (MCT) currently employed by the Office of the Superintendent of Financial Institutions (OSFI). The RSR has protected motorists from rate increases the past two fiscal years with extreme winter weather and unstable investment returns. The RSR Rebuilding Fee will ensure that the protection provided by the RSR will remain intact; therefore, the rebuilding fee "protects motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors" as indicated on page 24.

b) Please see attached the Statement of Basic Rate Stabilization Reserve (TI.16) and Comparison of Operating Results (TI.17) from the 2002 GRA.

8.0 Rate Stabilization Reserve ("RSR")

8.1 RSR History

In 1995 the Board of Directors of the Corporation approved an RSR plan to rebuild the Corporation's retained earnings for Basic insurance from a deficit balance of $49.9 million. The goal was to achieve a positive RSR balance through a multi-year plan consisting of increasing annual earnings through specific RSR contributions.

The Corporation has seen a marked improvement in the Basic RSR, from a $49.9 million deficit balance in fiscal 1996 to a $142.9 million surplus for fiscal 2001. The improvement in the RSR is attributed to approximately $55 million flowing from the RSR dedicated contributions, a $39 million gain from the sale of investments in fiscal 1998, and $98 million from earnings during this five-year period.

Due to the Corporation's improved financial situation in fiscal 2001, the Corporation's Board of Directors recommended a one-time 16.6% surplus dividend to be paid out of the RSR (then estimated at $75.4 million). This surplus dividend was approved in Order 151/00 and is to be paid to policyholders as policies are issued between March 1, 2001 and February 28, 2002.

In its revised application the Corporation lowered its forecast for fiscal 2002 from a net income of $15.8 million to a net loss of $14.3 million, resulting in a $30.1 million reduction in the forecasted RSR balance for that year. The Basic RSR before the surplus dividend is now forecast to be $128.6 million versus the previously forecasted $158.9 million. A summary of the RSR balances for Basic insurance from fiscal 1998 through to fiscal 2003 is as follows:

Basic Insurance Rate Stabilization Reserve ($ millions)

For Fiscal Years Ending February 28, 29	1998	1999	2000	2001	2002	2003
RSR Opening Balance	$(24.4)	22.5	64.4	104.9	142.9	50.0
Net Income (Loss)	36.3	25.5	23.4	30.9	(14.3)	2.2
Contribution to RSR	10.6	16.4	17.1	7.1	-	-
	22.5	64.4	104.9	142.9	128.6	52.2
Surplus Dividend	-	-	-	-	(78.6)	-
Total Basic RSR	$ 22.5	64.4	104.9	142.9	50.0	52.2

8.2 RSR Target

The Corporation is committed to ensuring that Basic insurance remains financially self-sufficient and stable through maintenance of the RSR and by breaking even on operations over the long term. 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.

The Corporation's Board of Directors reaffirmed its previous commitment to an RSR target range of $80 million to $100 million until February 28, 2003. The Corporation acknowledged that the range for the RSR adopted by the Board in Order 177/99 and reaffirmed in Order 151/00 for rate setting purposes is $65 million to $80 million as opposed to the $80 million to $100 million range adopted by the Corporation.

The Corporation had an RSR of $142.9 million for Basic insurance for fiscal 2001. The Corporation has forecast an RSR in Basic insurance in the current fiscal year 2002 to be $50.0 million after the $78.7 million surplus dividend and a forecasted loss on operations of

$14.3 million. The projected RSR for fiscal 2003 is estimated to be $52.2 million, which is below both the $80 million to $100 million target set by the Corporation's Board of Directors and the Board's target of $65 million to $80 million for rate setting purposes. Witnesses for the Corporation indicated no need for a dedicated RSR contribution to rebuild the RSR at this time, indicating it would consider doing so only when the actual results were known. If the forecasted RSR balance for fiscal 2002 of $52.2 million materializes, the Corporation would consider options to rebuild the RSR at that time.

8.3 Risk Analysis History

In the fiscal 1998 GRA, the Corporation prepared a Risk Analysis in support of its RSR target. Using a statistical variance approach, the Corporation considered five risk factors (revenue risk, investment risk, claims costs, claims expenses, and operating expenses) to determine the appropriate level of the RSR. Based on this methodology, the RSR target ranged from $78 million to $105 million at a 95% confidence level. The Corporation's Board of Directors adopted an RSR target of $80 million to $100 million to continue to the end of fiscal 2003.

In subsequent years the Corporation presented various refinements to the methodology to calculate the RSR target, as directed by the Board in Orders 154/98, 177/99 and 151/00. In response to the Risk Analysis presented at last year's application, the Board, in Order 151/00 expressed its desire to bring closure to the methodology to be employed in determining the appropriate RSR target for rate setting purposes. The Board directed MPI to incorporate the following criteria together in the Risk Analysis in establishing the proper RSR target for rate setting purposes:

- At a 95 % confidence level, both including and excluding operating costs; and
- At a 97.5 % confidence level, both including and excluding operating costs.

Each of the four scenarios should:

- Include only PIPP data;
- Include investment risk using a Value at Risk Analysis assuming a 25% equity component and a time horizon of between two and three years;
- Use variances between forecast and actual amounts for revenues, losses, operating expenses and claims expenses; and
- Use actual correlations between all risk components recognizing the directional effect on net income.

The Board also encouraged the Corporation to review recommendations made by their actuarial consultants, Milliman USA ("Milliman") on the operational Risk Analysis presented last year, and incorporate changes, if appropriate, in the next year's Risk Analysis.

8.4 Current Risk Analysis

In the current application, the Corporation provided an updated Risk Analysis to review its selection of a Basic insurance RSR target in compliance with the criteria directed by the Board in Order 151/00.

The Corporation engaged actuarial consultants Milliman to conduct the updated operational Risk Analysis, and as in prior years, engaged Comstat Asset Consulting Group ("Comstat") to perform the updated investment Risk Analysis (Value at Risk study). The updated Risk Analysis as filed contained both the Milliman and Comstat reports as appendices to a summary report prepared by the Pricing & Economics Department of the Corporation.

The analysis was prepared with the methodology set out by the Board in Order 151/00. In addition, the Corporation again presented its preferred methodology. The Corporation noted that

the approach prescribed in Order 151/00 restricts the outcome of the analysis to the variance between actual and forecast net income. To address this, the Corporation proposed to assess the underlying volatility of each component of the net income risk uniquely and combine them considering the correlation among the variables. In addition, the Corporation's approach included operating expenses as a risk, while the Board approved approach calculated the risk both including and excluding operating expenses.

The Corporation combined the operational and investment risk components from the Milliman and Comstat analyses, using perfect positive correlation. The Corporation disagreed with the use of the actual correlation between the two components, stating the relationships are not statistically significant due to the short-time period in which risk margins are calculated.

The combined operational and investment Risk Analysis based on the Board approved methodology prescribed in Order 151/00 suggested an appropriate RSR range of $50.7 million to $81.0 million assuming perfect correlation between operating and investment risk, and $39.5 million to $47.1 million assuming actual correlation. The alternative methodology prepared by the Corporation yielded a range of $94.5 million to $131.2 million.

8.5 Minimum Capital Test

The Corporation also prepared a Minimum Capital Test ("MCT") proposed by the Office of the Superintendent of Financial Institutions Canada ("OSFI") in support of the Risk Analysis. The MCT is a risk-based approach used to determine the minimum capital required to be held by privately owned Canadian property and casualty insurance companies. The Corporation noted that although it does not fall under this regulatory framework of OSFI, the results of the analysis represented another indicator that the Corporation considered in setting its RSR target. The minimum required assets for the Basic insurance line of business pursuant to the MCT is $127 million.

MANITOBA PUBLIC INSURANCE
STATEMENT OF BASIC INSURANCE RATE STABILIZATION RESERVE
For the Fiscal Years ended February 28/29,
(In thousands of dollars)

TI.16 Revised

	Actual				Revised September, 2001 Forecast	Revised September, 2001 Projected
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
BASIC INSURANCE RATE STABILIZATION RESERVE						
Beginning Balance	(24,416)	22,512	64,380	104,893	142,993	49,973
Net Income (Loss) for the year	36,284	25,487	23,446	30,904	(14,322)	2,236
Rate Stabilization Reserve Allocation	10,644	16,381	17,067	7,196	-	-
Surplus Discount	-	-	-	-	(78,698)	-
BASIC INSURANCE RATE STABILIZATION RESERVE BALANCE AT END OF YEAR	22,512	64,380	104,893	142,993	49,973	52,209
RSR Target Range -Lower Limit $80M -Upper Limit $100M						

Manitoba Public Insurance
Comparison of Operating Results for the Fiscal Year
For Fiscal Years Ended February 28/29,

TI.17
Revised

BASIC

(Dollars in Thousands)	Actual 1997/98	1998/99	1999/00	2000/01	Revised September, 2001 2001/02 Revised Forecast	2002/03 Projected
Net Premiums Earned						
Motor Vehicles	378,549	407,544	432,145	447,508	462,054	484,498
Drivers	25,008	27,915	27,751	27,769	29,960	32,254
Reinsurance Ceded	6,543	9,294	8,427	9,789	12,749	11,601
Total Net Premiums Earned	397,014	426,165	451,469	465,488	479,265	505,151
Service Fees & Other Revenues	10,964	12,465	14,370	14,046	14,199	14,156
Total Earned Revenues	407,978	438,630	465,839	479,534	493,464	519,307
Net Claims Incurred	340,758	330,793	352,743	378,137	433,214	440,836
Claims Expense	38,428	45,333	52,457	50,400	56,091	59,284
Total Claims Costs	379,186	376,126	405,200	428,537	489,305	500,120
Expenses						
Operating	37,392	35,744	37,723	37,659	36,886	40,410
Commissions	17,462	19,606	20,303	20,765	19,266	20,498
Premium Taxes	12,107	13,064	13,797	14,258	13,496	14,406
Regulatory/Appeal	1,990	1,885	1,673	1,854	1,586	1,615
Road Safety	3,577	5,615	5,204	5,572	6,917	6,690
Total Expenses	72,528	75,914	78,700	80,108	78,151	83,619
Underwriting Income (Loss)	(43,736)	(13,410)	(18,061)	(29,111)	(73,992)	(64,432)
Investment Income	90,664	55,278	58,574	67,211	59,670	66,668
Net Income (Loss)	46,928	41,868	40,513	38,100	(14,322)	2,236
Rate Stabilization Reserve Allocation	10,644	16,381	17,067	7,196	-	-
Net Income (Loss) After Allocation To RSR	36,284	25,487	23,446	30,904	(14,322)	2,236

Actual results could deviate significantly from the forecast/projection. The forecast/projection is based on various techniques and assumptions.

CAC (MPI) 2-21 **Reference: CAC (MPI) 1-155 (d), PUB (MPI) 1-9 (b)**

Preamble: Increase basic insurance deductible from $500 to $750. The response implies that the information request was a request to the Legislature of Manitoba to amend the MPIC Act. The information request is simply a financial operating scenario, in light of the huge losses that have been reported for basic insurance in the last two years, to estimate and consider the financial impact to basic insurance by raising the deductible by $250; exclusive of the financial impact to extension insurance.

If MPI has the capacity and access to the claims data, please prepare and file a pro forma financial statement scenario raising the basic deductible by $250.

RESPONSE:

See PUB (MPI) 2-7.

The Corporation has neither the access nor the capacity to prepare the response to a change in legislation that is not forthcoming and that is irrelevant to setting the 2015 rates.

CAC (MPI) 2-22 **Reference: CAC (MPI) 1-157 (a) (ii)**

Preamble: The response states: "Deferrals of policy acquisition expenses were not included in the forecast because this treatment of expenses is not compatible with rate level assessments. Similarly, premium deficiencies were also excluded."

a) Please explain the current accounting policy and practice of expensing agents' commission and premium taxes over the life of the insurance policy.

b) Please elaborate on and explain the response relating to "this treatment of expenses is not compatible with rate level assessments".

RESPONSE:

a) Commissions and premium taxes are deferred and charged to expense over the term of the insurance contract to which such costs relate.

b) Please refer to PUB (MPI) 2-32.

CAC (MPI) 2-23 Reference: CAC (MPI) 1-172 (b) and (c)

a) The headings on Exhibits 1a to 1f in the 2014 DCAT report indicate that each exhibit is labeled "Statement of Corporate Investment Income". Also, on Exhibit 1f between line 9 and 10 is a heading labeled "Basic Investment Income" which appears to be out of place. Please correct, if necessary, for the record.

b) Please reconcile and compare the "Adjustment to Base Forecast Net Income" (Restated Base Scenario) on page 5 of the 2014 DCAT report for fiscal years 2014/15 to 2018/19 to Exhibit 1f for the same years as indicated in the response to CAC (MPI) 1-172 (c).

RESPONSE:

a) The exhibit was mislabeled. For the corrected version, see attachment (a).

b) The "Adjustment to Base Forecast Net Income" is the end result of including the Deferred Policy Acquisition Expenses and Premium Deficiency. Net Claims Incurred is directly affected by these two items and as a result, changes in the timing of rebalancing and slight changes to discount rates occur. See attachment (b) for a breakdown of these impacts to net income. Below are the claims liability discount rates for both the Restated Base DCAT and the original base scenario.

Assumed Claims Liability Discount Rate

Fiscal Year End	Restated Base DCAT	Base
2014/15	4.143%	4.145%
2015/16	4.526%	4.525%
2016/17	4.785%	4.776%
2017/18	5.103%	5.103%
2018/19	5.144%	5.147%

Exhibit 1a
Base Scenario
Statement of Operations

(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	614,643	657,860	721,342	750,095	831,761
Claims Expense	109,760	108,587	114,552	116,249	120,481	125,887	127,186	138,189
Road Safety/Loss Prevention	12,982	13,032	12,816	11,350	10,514	10,553	10,594	10,636
Total Claims Costs	734,779	782,907	874,803	742,242	788,855	857,782	887,876	980,586
Expenses								
Operating	57,465	63,758	67,982	73,568	74,791	78,990	80,969	87,222
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	3,314	3,380	3,447	3,516
Total Expenses	124,688	127,764	127,148	134,751	138,630	146,334	151,159	160,363
Underwriting Income (Loss)	(79,054)	(135,467)	(216,898)	(56,715)	(41,962)	(62,394)	(52,394)	(107,773)
Investment Income	101,243	72,363	147,735	28,759	49,944	73,693	92,416	129,926
Basic Investment Income								
Net Income (Loss) from Operations	22,189	(63,104)	(69,163)	(27,956)	7,981	11,299	40,022	22,153
Allocated from Property	89	-	-	-	-	-	-	-
Transfer from Immobilizer Incentive Fund	-	-	-	-	-	-	-	-
Net Income (Loss)	22,278	(63,104)	(69,163)	(27,956)	7,981	11,299	40,022	22,153

Exhibit 1b
Base Scenario
Statement of Retained Earnings

(C$ 000s, except where noted)	For the Years Ended February,							
	2012A	2013A	2014A	2015P	2016P	2017P	2018P	2019P
RATE STABILIZATION RESERVE (RSR)								
Basic Insurance Rate Stabilization Reserve								
Beginning Balance	155,700	149,800	99,876	71,920	79,901	91,200	131,223	153,376
Net Income (Loss) from annual operations	-	-	-	-	-	-	-	-
Transfer from Basic Retained Earnings	-	(49,924)	(27,956)	7,981	11,299	40,022	22,153	58,724
Transfer to Basic Retained Earnings	(5,900)	-	-	-	-	-	-	-
Ending Balance	149,800	99,876	71,920	79,901	91,200	131,223	153,376	212,100
Minimum RSR based on PUB rules	77,900	77,900	82,300	89,000	93,200	97,600	102,100	106,400
Maximum RSR based on PUB rules	149,800	155,700	164,300	177,700	186,100	194,700	203,600	212,100
MPI RSR Target	200,000	200,000	172,000	172,000	172,000	172,000	172,000	172,000
Retained Earnings								
Beginning Balance	57,983	19,239	-	-	-	-	-	-
Net Income (Loss) from annual operations	13,339	(49,924)	(27,956)	7,981	11,299	40,022	22,153	110,588
Retained Earnings Prior to Transfers	71,322	(30,685)	(27,956)	7,981	11,299	40,022	22,153	110,588
Transfer to Rate Stabilization Reserve	-	49,924	27,956	(7,981)	(11,299)	(40,022)	(22,153)	(58,724)
Transfer from Rate Stabilization Reserve	5,900	-	-	-	-	-	-	-
Transfer from Immobilizer Incentive Fund	-	-	-	-	-	-	-	-
Transfer (to) from IT Optimization Fund	-	-	-	-	-	-	-	-
Premium Rebate	-	-	-	-	-	-	-	-
Transition to IFRS Mar 1/10	-	-	-	-	-	-	-	-
Balance of Fund	**19,239**	**-**	**-**	**-**	**-**	**-**	**-**	**51,864**
IT Optimization Fund								
Beginning Balance	-	65,000	-	-	-	-	-	-
Transfer to Basic Retained Earnings	-	-	-	-	-	-	-	-
Balance of Fund	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Basic Investment Income								
Total Basic Retained Earnings	**$ 169,039**	**$ 99,876**	**$ 71,920**	**$ 79,901**	**$ 91,200**	**$ 131,223**	**$ 153,376**	**$ 263,964**

Manitoba Public Insurance

Exhibit 1c
Base Scenario
Balance Sheet

(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	1,319,679	1,281,705	1,309,331	1,414,557	1,517,039
Equity investments	424,986	473,796	600,483	620,566	701,110	744,354	718,312	737,281
Investment property	161,186	175,142	32,226	31,222	31,015	30,784	30,574	30,417
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	2,377,059	2,448,360	2,532,829	2,626,725	2,745,384
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	1,489,706	1,493,892	1,518,745	1,534,945	1,592,838
	2,025,368	2,114,178	2,277,408	2,234,238	2,290,550	2,356,048	2,414,467	2,516,174
Equity								
Retained earnings								
Basic Insurance Retained Earnings								
Rate Stabilization Reserve	155,700	149,800	99,876	71,920	79,901	91,200	131,223	153,376
Basic Investment Income								
Retained Earnings	57,983	19,239	-	-	-	-	-	-
Information Technology Optimization Fund	-	-	-	-	-	-	-	-
	213,683	169,039	99,876	71,920	79,901	91,200	131,223	153,376
Accumulated Other Comprehensive Income	49,007	56,800	70,284	70,902	77,909	85,580	81,035	75,834
Total Equity	262,690	225,839	170,160	142,822	157,810	176,781	212,258	229,210
	2,288,058	2,340,017	2,447,568	2,377,059	2,448,360	2,532,829	2,626,725	2,745,384

Exhibit 1d
Base Scenario
Minimum Capital Test

(All figures in $000s)		2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019
		Current Year (01)	Forecast Year (02)	Forecast Year (03)	Forecast Year (04)	Forecast Year (05)
Capital Available						
Total Equity less Accumulated Other Comprehensive Income	02	71,920	79,901	91,200	131,223	153,376
Add:						
Subordinated Indebtedness and Redeemable Preferred Shares	03					
Accumulated Other Comprehensive Income (Loss) on:						
Available for Sale Equity Securities	04	70,902	77,909	85,580	81,035	75,834
Available for Sale Debt Securities	06					
Foreign Currency (Net of Hedging Activities)	08					
Share of Other Comprehensive Income of non-qualifying Subsidiaries, Associates & Joint Ventures	36					
Revaluation Losses in Excess of Gains on Own Use Properties	32					
(Specify)	30					
Less:						
Accumulated net after-tax fair value gains (losses) arising from changes in the company's own credit risk	12					
Unrealized Fair Value Gains (Losses) from Own Use Properties at Conversion	15					
Shadow Accounting Impact	16					
Assets with a Capital Requirement of 100%	17					
(Specify)	13					
IFRS Conversion Phase in	18					
Total Capital Available	19	142,822	157,810	176,781	212,258	229,210
Minimum Capital Required						
Balance Sheet Assets	20	151,420	174,247	188,653	186,793	185,573
Unearned Premiums/Unpaid Claims/Premium Deficiencies	22	174,457	177,438	181,841	185,229	193,982
Catastrophes	24	0	0	0	0	0
Basic Investment Income						
Reinsurance Ceded to Unregistered Insurers	26	0	0	0	0	0
Interest Rate Risk	38	18,408	20,995	20,752	16,841	14,562
Foreign Exchange Risk (for future use only)	40					
Structured Settlements, Letters of Credit, Derivatives and Other Exposures	28	0	0	0	0	0
(Specify)	34					
Minimum Capital Required	29	344,285	372,680	391,246	388,863	394,117
Excess Capital Available over Minimum Capital Required (line 19 minus line 29)	89	(201,464)	(214,869)	(214,465)	(176,604)	(164,907)
Line 19 as a % of line 29	90	41.48%	42.34%	45.18%	54.58%	58.16%
Minimum Gross Capital Level	96	43,751	44,499	45,605	46,457	48,653

Exhibit 1e
Base Scenario
Net Claims Incurred Summary

(C$ 000s, except where noted)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Claims Incurred before Financial Provisions						
Weekly Indemnity	$94,284	$40,552	$45,943	$55,137	$52,373	$71,307
ABO - Indexed	$76,736	$49,910	$55,672	$63,480	$61,303	$77,046
ABO – Non-Indexed	$34,750	$29,546	$30,087	$30,699	$31,158	$32,037
PIPP Enhancements	($3,292)	$6,229	$5,057	$6,180	$5,799	$7,944
Public Liability - BI	$2,936	$3,674	$3,736	$3,804	$3,816	$3,935
Collision	$354,045	$346,034	$368,846	$391,525	$415,465	$441,032
Comprehensive	$73,957	$78,595	$82,073	$85,769	$89,669	$93,884
Property Damage	$46,091	$41,554	$43,257	$44,950	$46,658	$48,541
Total	$679,507	$596,094	$634,670	$681,542	$706,241	$775,727
Unallocated Loss Adjustment Expenses	$32,294	$38,547	$39,343	$41,229	$43,180	$45,186
Change in Internal Loss Adjustment Expense Provision	$12,579	($9,552)	($2,303)	$1,311	$155	$6,517
Change in Reinsurance Ceded Provision	($2,454)	$0	$0	$0	$0	$0
Other Financial Adjustments	$306	$0	$0	$0	$0	$0
Change in DPAC / Premium Deficiency Provision	$25,203	($10,448)	($13,850)	($2,741)	$519	$4,330
Total Net Claims Incurred	$747,435	$614,642	$657,860	$721,341	$750,095	$831,760

Exhibit 1f

Base Scenario

Deferred Policy Acquisition Expenses and Premium Deficiency

A. Claims (Including External Adjustment Expense) Data

		Accident Year										Selected	Selected
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Undisc	Disc
1.	Ultimate Loss Ratio - Total All Coverage	65.04%	70.96%	71.87%	77.52%	81.98%	79.26%	77.02%	76.01%	75.88%	75.84%		
2.	Trend/Rate Adjustment for Fiscal Year												
	2013	1.1282	1.1202	1.0963	1.0491	1.0209							
	2014		1.0897	1.0663	1.0201	0.9926	1.0006						
	2015			1.0259	0.9813	0.9546	0.9621	0.9950					
	2016				0.9764	0.9495	0.9566	0.9890	1.0074				
	2017					0.9671	0.9691	0.9965	1.0096	1.0117			
	2018						0.9852	1.0094	1.0189	1.0174	1.0151		
3.	Adjusted Loss Ratio for Fiscal Year [(1) x (2)]												
	2013	73.38%	79.49%	78.80%	81.32%	83.70%						79.87%	84.44%
	2014		77.33%	76.64%	79.08%	81.38%	79.30%					78.57%	82.10%
	2015			73.74%	76.07%	78.26%	76.25%	76.63%				76.32%	79.02%
	2016				75.69%	77.85%	75.82%	76.17%	76.57%			76.18%	78.43%
	2017					79.29%	76.80%	76.75%	76.74%	76.77%		76.77%	78.50%
	2018						78.08%	77.74%	77.45%	77.20%	76.99%	77.46%	79.13%

B. Actual Data Other Than Losses

		Fiscal Year									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.	Net Earned Premium	727,088	749,534	761,677	756,751	764,681	800,480	859,913	910,160	952,838	996,856
5.	Operating Expenses as % of Earned Premium	9.82%	9.79%	9.70%	10.82%	10.84%	11.02%	10.31%	10.21%	9.97%	10.17%
6.	Maintenance Expense Rate [(5) x 1/3]	3.27%	3.26%	3.23%	3.61%	3.61%	3.67%	3.44%	3.40%	3.32%	3.39%
	Selected					3.48%	3.63%	3.57%	3.50%	3.39%	3.37%
7.	ILAE Ratio to Losses - Selected					20.00%	20.00%	20.00%	20.00%	20.00%	20.00%

C. Equity in Unearned Premium

		2013	2014	2015	2016	2017	2018
8.	Net Unearned Premium	369,234	397,256	429,559	449,693	470,505	491,898
9.	Additional Expected Cost of Non-Proportional Reinsurance	6,831	6,967	7,106	7,249	7,394	7,541
10.	Expected Claims (Including Ext Adj Expenses) [((8) - (9)) x (3)]	306,020	320,435	333,829	347,009	363,536	383,293
11.	Reinsurance PFAD	16	-	-	-	-	-
12.	Maintenance Expense [a]	12,514	14,027	14,930	15,321	15,493	16,130
13.	Internal Loss Adjustment Expense [Sheet 1, Row 11]	61,269	64,087	66,766	69,402	72,707	76,659
14.	Expected Claims (Including Ext Adj Expenses) - PIPP Enhancement	3,369	3,369	3,369	3,369	3,369	3,369
15.	Equity in Unearned Premium [(8) - Sum((9) to (14))]	(20,785)	(11,628)	3,559	7,345	8,006	4,906
16.	Carried Deferred Policy Acquisition Expenses	25,384	24,093	25,431	26,475	27,655	28,886
17.	Write Down Deferred Policy Acquisition Expenses [b]	25,384	24,093	21,871	19,130	19,650	23,980
	Change		(1,291)	(2,221)	(2,741)	519	4,330
18.	Premium Deficiency [c]	20,785	11,628	-	-	-	-
	Change		(9,156)	(11,628)	-	-	-

Notes:

[a] ((8) - (9)) x (6) x Discount to Valuation Date Without Margin

[b] Min((16) - (15), (16)) if greater than 0, otherwise 0

[c] Negative of (15) if greater than 0, otherwise 0

Exhibit 1g
Base Scenario
Summary of Corporate Investment Income

	2014/15	2015/16	2016/17 Forecasted	2017/18	2018/19
Interest Income During Period					
Cash/Short Term Investments	635	312	704	2,163	3,656
Marketable Bonds	33,139	32,540	33,220	39,327	45,163
MUSH	30,293	31,266	32,070	33,376	34,708
Total	64,067	64,118	65,995	74,866	83,527
Dividend and other Income					
Canadian Equities	11,216	12,867	14,259	13,150	13,709
US Equities	3,256	3,647	4,240	4,553	4,980
Investment Properties (Cityplace)	3,366	3,433	3,502	3,572	3,643
Infrastructure	3,050	5,411	8,823	10,955	10,955
Total	20,888	25,359	30,824	32,231	33,287
Gains During Period - Profit & Loss					
Marketable Bonds Unrealized Gains/(Loss)	(57,232)	(37,894)	(20,439)	(21,964)	5,783
Marketable Bonds Realized Gains/(Loss)	(4,664)	(5,108)	(3,599)	(3,876)	1,020
MUSH	-	-	-	-	-
Canadian Equities Realized Gains	16,195	16,382	16,664	30,384	14,336
US Equities Realized Gains	-	-	-	-	18,311
Real Estate (Pooled Fund)	10,611	13,323	16,011	16,972	17,990
Infrastructure	-	-	-	-	-
Total	(35,090)	(13,296)	8,637	21,515	57,440
Other					
Investment Fees Paid	(3,803)	(4,258)	(4,587)	(4,762)	(4,981)
Pension Expense	(11,752)	(12,338)	(12,951)	(13,594)	(14,268)
Investment Write-Down	-	-	-	-	-
Total	(15,555)	(16,596)	(17,538)	(18,356)	(19,249)
Total Corporate Investment Income	34,310	59,584	87,917	110,255	155,005
Total Basic Investment Income	28,759	49,944	73,693	92,416	129,926
Equity Unrealized Gains/(Losses)					
Canadian Equities Unrealized Gains	16,925	17,363	18,210	16,794	17,507
US Equities Unrealized Gains	7,009	7,379	7,606	8,168	8,934
Total Corporate Unrealized Gains/(Losses)	23,934	46,745	51,599	57,379	64,566

Ending Values and Allocations

	2014/15	2015/16	2016/17 Forecasted	2017/18	2018/19
Ending Asset Values for Corporate ($Millions)					
Cash/Short Term Investments	25.9	25.0	25.6	80.8	85.7
Canadian Fixed Income	908.5	807.9	783.6	854.7	976.6
MUSH	606.8	621.5	640.0	653.9	663.7
Canadian Equities	408.7	438.9	471.4	414.5	466.2
US Equities	149.3	160.3	172.1	185.8	144.6
Real Estate	241.8	305.2	321.2	338.1	356.1
Infrastructure & Venture Capital	64.4	114.4	164.4	164.4	164.4
Total Corporate Assets	2,405.5	2,473.2	2,578.3	2,692.2	2,857.4
Total Basic Assets	1,971.5	2,013.8	2,084.5	2,163.4	2,284.7
Ending Rebalanced Allocations (%)					
Cash/Short Term Investments	1.1%	1.0%	1.0%	3.0%	3.0%
Canadian Fixed Income	37.8%	32.7%	30.4%	31.7%	34.2%
MUSH	25.2%	25.1%	24.8%	24.3%	23.2%
Canadian Equities	17.0%	17.7%	18.3%	15.4%	16.3%
US Equities	6.2%	6.5%	6.7%	6.9%	5.1%
Real Estate	10.1%	12.3%	12.5%	12.6%	12.5%
Infrastructure & Venture Capital	2.7%	4.6%	6.4%	6.1%	5.8%
Total Corporate	100.0%	100.0%	100.0%	100.0%	100.0%

Manitoba Public Insurance
Multi-year Statements - Underwriting Income

(C$ 000s, except where noted)	*For the Years Ended February,*							
	2012A	2013A	2014A	2015P	2016P	2017P	2018P	2019P
BASIC								
Motor Vehicles	-	-	-	-	-	-	-	-
Drivers	-	-	-	-	-	-	-	-
Reinsurance Ceded	-	-	-	-	-	-	-	-
Total Net Premiums Written	-	-	-	-	-	-	-	-
Net Premiums Earned								
Motor Vehicles	-	-	-	-	-	-	-	-
Drivers	-	-	-	-	-	-	-	-
Reinsurance Ceded	-	-	-	-	-	-	-	-
Total Net Premiums Earned	-	-	-	-	-	-	-	-
Service Fees & Other Revenues	-	-	-	-	-	-	-	-
Total Earned Revenues	-	-	-	-	-	-	-	-
Net Claims Incurred	-	-	-	(10,134)	(14,277)	(4,014)	1,912	4,778
Claims Expense	-	-	-	-	(5)	(122)	(127)	(131)
Road Safety/Loss Prevention	-	-	-	-	-	(11)	(11)	(12)
Total Claims Costs	-	-	-	(10,134)	(14,283)	(4,148)	1,773	4,636
Expenses								
Operating	-	-	-	-	-	(72)	(74)	(76)
Commissions	-	-	-	-	-	-	-	-
Premium Taxes	-	-	-	-	-	-	-	-
Regulatory/Appeal	-	-	-	-	-	(0)	(0)	(0)
Total Expenses	-	-	-	-	-	(72)	(74)	(76)
Underwriting Income (Loss)	-	-	-	10,134	14,283	4,220	(1,699)	(4,559)
Investment Income	-	-	-	(48)	36	(10,913)	15,071	1,666
Net Income (Loss) from Operations	-	-	-	10,086	14,319	(6,694)	13,372	(2,893)
Allocated from Property	-	-	-	-	-	-	-	-
Transfer from Immobilizer Incentive Fund	-	-	-	-	-	-	-	-
Net Income (Loss)	-	-	-	10,086	14,319	(6,694)	13,372	(2,893)

CAC (MPI) 2-24 **Reference: Volume II**
2014 DCAT Report

Preamble: On page 4 it states: "The investigation incorporates assumptions relating to business growth, investments, claims frequency and severity, transfer of capital between lines of business, and other internal and external conditions during the forecast period. My report includes the identification of key risk exposures and the corrective management and regulatory actions that could be taken to mitigate the effect of plausible adverse scenarios."

a) Please elaborate and quantify the financial impact of the corrective management actions that are or will be taken to mitigate the effect of plausible adverse scenarios before a rate increase would be considered and implemented.

b) Please confirm that the principal goal of the DCAT process is the identification of possible threats to the financial condition of the insurer and appropriate risk management or corrective actions to address those threats.

c) Please confirm that the DCAT process informs management of areas requiring strengthened risk mitigation processes to avoid unexpected losses or losses arising from non-recurring events so as to not having to increase rates.

RESPONSE:

a) In terms of the Basic DCAT report, the management and regulatory actions are generally limited to rate changes and/or RSR rebuilding fees. However, the speed/timing of these rate changes and RSR rebuilding fees is a key assumption in the DCAT analysis (as described in the DCAT report).

   The DCAT scenarios are modeled based on the 'normal' or historical variability of the key risk factors (e.g. equities, interest rates, claims incurred). Therefore, one-time abnormal deviations (i.e. deviations that would not be predicted to have any plausibility of occurrence based on the historical data), along with a

description of how the Corporation would mitigate such deviations, are not something that is described in detail in the DCAT report. However, the RSR range proposed by the Corporation would provide protection from these unknown events. For example, the recent issues and impact surrounding PIPP reserving (see CAC (MPI) 1-29) would not have been predicted based on the historical variability of the PIPP coverage, but the Corporation has put mechanisms in place to reduce the impact of this issue and prevent any future occurrences (see CAC (MPI) 2-11 (c)).

In terms of other corrective actions, the Corporation has various mechanisms in place to mitigate financial losses, including (but not limited to): the Investment Policy Statement; the asset and liability management program, and the casualty and catastrophe reinsurance program. These risk mitigation mechanisms are built directly into the modeling of the DCAT scenarios; and therefore, are not specifically described as part of each adverse scenario.

b) Confirmed. The entity should have adequate capital to protect itself from plausible threats to its financial condition. The assessment of potential threats should be net of plausible management and regulatory actions. If a significant threat is identified, management should consider possible risk mitigation measures to address those threats (e.g. a large hail storm is a significant threat to the financial condition of the Basic program, so the Corporation purchases reinsurance coverage to mitigate that threat). Not all threats can be completely mitigated. There is also a cost/benefit of risk mitigation (e.g. equity assets are more variable, but have historically produced higher returns over the long term)

c) Confirmed. However, not all risks can be mitigated at an acceptable cost/benefit. The rate stabilization reserve is required to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors These risks are well documented and explained in the DCAT.

CAC (MPI) 2-25 **Reference: MPIC Act Subsection 44(1) Excess of assets**

Preamble: Subsection 44(1) states: "If the financial statement which, but for this section, the minister would be required to lay before the Legislative Assembly under section 43 shows that the assets of the corporation at the end of the year for which the statement is made exceed its liabilities at the end of that year, the Lieutenant Governor in Council may, by order, direct that the corporation pay to Her Majesty in right of Manitoba forthwith after the statement, amended as provided in subsection (2), has been laid before the Legislative Assembly such portion of the remaining excess as the Lieutenant Governor in Council may determine; but not so as to reduce the remaining balance of the excess of assets over liabilities below 125% of the total of the unearned premiums upon all its outstanding unmatured policies, calculated pro rata for the time expired, together with the amount of outstanding claims and all its other liabilities of every kind."

a) Please file a copy of the analysis in compliance with subsection 44(1) of the MPIC Act.

b) Please elaborate as to how subsection 44(1) of the MPIC Act impacts the basic insurance RSR.

RESPONSE:

a) and b)

The Lieutenant Governor in Council has made no such order under its permissible powers; therefore, the Corporation has made no such payments. The Corporation is in compliance with this legislation.

CAC (MPI) 2-26 **Reference: Quarterly Financial Report 1st Quarter May 31, 2014 page 4**

Preamble: Goal 6 "Manitoba Public Insurance will offer an environment and career opportunities that will encourage employees to strive for excellence. Our people will be treated with respect and fairness and their contributions will be recognized. Why? We value our employees."

The last employee satisfaction results are from Q1-11/12. Please advise when the employee satisfaction "dial" is expected to be updated.

RESPONSE:

The answer to this information request has no bearing in determining the reasonableness of the rate increase being requested.

There are other legislative requirements for operational audits and reviews of the Corporation, such as the Office of the Auditor General and the Crown Corporation Council to assess the operational information relating to operational decisions. The Public Utilities Board is designed for rate setting only, not as an operational review.

CAC (MPI) 2-27 **Reference:** **Quarterly Financial Report 1st Quarter May 31, 2014 page 8**

Preamble: Deferred policy acquisition costs

Please confirm that the deferred policy acquisition costs of $24,358,000 relate to commissions and premium tax for non-basic lines of business.

RESPONSE:

The deferred policy acquisition cost of $24,358,000 in the Quarterly Financial Report 1st Quarter May 31, 2014 relates to the commissions and premium tax for all lines of business.

CAC (MPI) 2-28 **Reference: Quarterly Financial Report 1st Quarter May 31, 2014 page 6**

Preamble: "Claims costs for the three months ended May 31, 2014 decreased by $26.6 million compared to last year due primarily to a decrease of $35.7 million or 36.0% in bodily injury claims incurred, "

a) Please elaborate on whether the decrease in bodily injury claims incurred of $35.7 million was a budgeted decrease and included in the 2015 GRA claims forecasting process. If not, what is the impact on the claims projections?

b) Please identify and elaborate on the source of the $35.7 million bodily injury claims incurred decrease.

RESPONSE:

a) The quote is in comparison to *last year's* results, not in comparison to this year's budget. As documented in the Claims Incurred section of the Rate Application (Volume II) and in CAC (MPI) 1-29 and CAC (MPI) 2-11, there was a significant one-time increase in reported losses in the first quarter of 2013/14 as a result of a comprehensive review of injury claims.

   In Q1 2014/15, PIPP direct claims incurred were $2.2 million under budget, while PIPP net claims incurred (i.e. inclusive of interest rate and IBNR adjustments) were $13.9 million over budget. The unfavourable results for PIPP net claims incurred were caused mainly by an unfavourable interest rate impact of $16.4 million relative to budget.

b) See part (a)

CAC (MPI) 2-29 **Reference: Quarterly Financial Report 1st Quarter May 31, 2014 page 6**

Preamble: "Prior year statements have also been restated due to a change in Weighted Customer Call Centre Contact Ratio, the allocation percentage used as part of the cost allocation methodology. It was adjusted to better reflect actual call center activity."

Please provide a detailed analysis explaining the restatement and change in the Weighted Customer Call Centre Contact Ratio as it relates to basic insurance for the 1st Quarter ended May 31, 2014 and for the 2015 GRA forecasts.

RESPONSE:

Please refer to PUB (MPI) 2-2.

CAC (MPI) 2-30 **Reference: PUB (MPI) 1-2 (c) Board Minute 14-127**

Preamble: "To communicate to the Public Utilities Board in its 2015/16 Basic General Rate Application, that if the Public Utilities Board approves a Rate Stabilization Reserve minimum target, based on the DCAT which contains an agreed to safety margin above DCAT results, then the Board of Directors will authorize transferring some Extension and SRE excess retained earnings to increase the Basic Rate Stabilization Reserve and,.. "

a) Please elaborate on the reasons MPI management and Board of Directors require PUB acceptance/approval of the DCAT proposed minimum RSR target before transferring excess retained earnings from extension insurance and SRE to Basic RSR.

b) If excess retained earnings from extension and SRE were not transferred to Basic RSR, please explain if the excess retained earnings from extension insurance and SRE would be returned to the policyholders in the form of premium dividend. If not, please explain how the excess retained earnings would be used.

RESPONSE:

a) The amount to be transferred and when is wholly within the discretion of the Board of Directors of Manitoba Public Insurance. The Board of Directors considers the sequencing of events important to determine both the amount and timing of the transfer.

b) Basic insurance rates are set prospectively based on pro forma financial projections of expenses and revenues and actuarial modeling. This information request has no bearing on the reasonableness of the financial projections or actuarial modeling used to determine rates effective March 1, 2015. This is consistent with the Corporation's understanding of the PUB's mandate as stated

in *The Crown Corporations Public Review and Accountability Act* and by the Court of Appeal.

CAC (MPI) 2-31 **Reference: PUB (MPI) 1-9 (a)**

Preamble: "…the Corporation may consider recommending to the Government to raise the deductible. Changing coverage, and in particular, decreasing coverage, would likely be a last resort. The Corporation would recommend such an approach most reluctantly as it would have a negative impact on the ratepayers and the economy of Manitoba."

Please elaborate and quantify, by way of an example, how raising the basic insurance deductible, by say $100, would have a negative impact on ratepayers and the economy of Manitoba.

RESPONSE:

See CAC (MPI) 2-21.

CAC (MPI) 2-32 Reference: Response to CAC (MPI) 1-83

a) Please give the rate for a male driver 25 years of age with 8 years of driving experience and no claims or convictions on his record. Also give the rate for a male driver 50 years of age with 25 years of driving experience and no claims or convictions on his record. Assume a Winnipeg address and rate group 40. Any other rating factors can be assumed as long as they are consistent between the two rate calculations.

b) Without the use of some predictive variables in the Corporation's algorithm, such as gender, please explain how subsidization does not exist between drivers in Manitoba?

RESPONSE:

a) The Basic classification system is prescribed in regulation under *The Manitoba Public Insurance Corporation Act.* The Corporation only utilizes those rating factors prescribed in regulations in the determination of Basic rates. A driver's age and/or gender are not used in the determination of Basic rates. Rates provided below for Basic insurance on an All Purpose Passenger vehicle with rate group 35 (the Corporation's highest rate group) in Territory 1 (Winnipeg).

Profile	DSR Discount level	Rate with discount	Drivers license discount rate	RSR	Total
25 year old with 8 years of experience with no claims or convictions	25%	$1,309	$30	$13	$1,352
50 year old with 25 years of experience with no claims or convictions	33%	$1,169	$15	$12	$1,196

b) The Basic classification system is prescribed in regulation under *The Manitoba Public Insurance Corporation Act.* The Corporation only utilizes those rating factors prescribed in regulations in the determination of Basic rates. The determination of rates based on any other rating factors (e.g. age, gender) is not relevant to this application.

CAC (MPI) 2-33 **Reference:** **Response to CAC (MPI) 1-108**

Please provide the minutes to the DSR hearing held in 2009. In the alternative please provide an electronic link.

RESPONSE:

CAC was an intervener at this hearing and has access to transcripts, both in paper and on the PUB's website.

CAC (MPI) 2-34 **Reference: Page 11 of the Claims Incurred section**

Please explain why the simple all year linear trend was used to forecast Claim Count Incurred > $0 when the Corporation has substantial historical data with which to fit distributions to their loss history to predict these trends, given the volatile nature of Weekly Indemnity claims.

RESPONSE:

For the purposes of selecting a forecast over a five-year period, the Corporation selected a linear trend as it was a best estimate of the current trend of claim counts. Also, Claim Count Incurred > $0 figures for years prior to 2000/01 are difficult to compile. This is an internal issue with the data warehouse. For simulation purposes, fitting a loss distribution would be necessary to develop a range of claims counts; however, the Corporation requires a fixed number for its forecast.

CAC (MPI) 2-35 **Reference: Response to PUB (MPI) 1-39 (b)**

Please provide the detailed derivation of the selected ultimate collision claims greater than $0 and the selected ultimate collision severities shown in the tables in the response.

RESPONSE:

Ultimate collision claim counts were derived by applying claims development factors to the reported-to-date claims counts. Historical claims development factors were calculated on a monthly basis and the five-year average (with two exceptions, as described below) was applied to the 2013/14 reported claim counts to develop the figures to ultimate. Claim severities were developed in a similar manner.

Due to a lag in claims processing, the historical average claims development factors were deemed to be inappropriate for January 2014 and February 2014 claims counts. To produce a more realistic ultimate, the development factors from December 2013 claims (which also experienced processing lag) and judgment were used to estimate the ultimate claims count for these two months. Similarly, ultimate severity for January 2014 and February 2014 was approximated based on the prior months' severity increases, since the reported amounts (which were also impacted by the processing lag) were inconsistent with historical experience. For more detail, see the attached tables.

Collision Claim Count @ 12 Months ('000)	Month 1	2	3	4	5	6	7	8	9	10	11	12	Clm Cnt @ 12 mo
FY2003	7,928	5,052	5,019	5,731	5,269	5,564	5,531	6,365	8,090	9,859	13,494	5,539	83,441
FY2004	6,909	4,805	5,362	6,005	5,465	5,417	5,762	7,273	8,156	11,041	13,336	4,695	84,226
FY2005	7,432	5,374	5,473	6,371	6,103	5,623	5,692	6,505	8,969	10,068	8,468	6,159	82,237
FY2006	7,896	5,494	5,955	6,438	5,993	5,750	6,341	7,718	9,123	9,974	11,455	6,916	89,053
FY2007	7,921	5,259	5,901	6,554	6,189	5,818	5,962	7,243	10,007	12,392	9,588	7,668	90,502
FY2008	7,746	5,732	5,604	6,240	5,839	6,199	6,228	7,150	9,541	14,913	12,498	6,266	93,956
FY2009	8,727	6,454	6,342	7,006	6,806	6,305	6,616	7,642	6,130	10,751	9,908	6,340	91,027
FY2010	6,831	6,121	6,483	7,248	6,663	6,665	7,094	7,627	11,126	11,828	13,910	5,353	96,949
FY2011	9,598	6,653	6,797	6,922	6,673	6,784	7,156	7,382	10,460	9,397	11,106	5,866	94,794
FY2012	8,072	6,176	7,022	7,467	6,808	6,775	6,776	6,094	11,449	12,742	14,086	6,011	101,478
FY2013	9,828	7,335	6,863	6,893	6,660	6,541	6,366	7,094	11,577	15,239	13,865	3,170	101,431
3-year Avg	9,166	6,721	6,894	7,094	6,714	6,700	6,766	7,523	11,162	12,459	13,019	5,016	99,234
5-year Avg	8,611	6,548	6,701	7,107	6,722	6,614	6,802	7,568	10,548	11,991	12,575	5,348	97,136
10-year Avg	8,096	5,940	6,180	6,714	6,320	6,188	6,399	7,373	9,854	11,835	11,822	5,844	92,565

Collision Claim Count @ Ultimate('000)	Month 1	2	3	4	5	6	7	8	9	10	11	12	as of Feb 2014
FY2003	8,156	5,212	5,190	5,977	5,508	5,870	5,941	6,712	7,939	9,624	13,277	7,665	87,071
FY2004	7,151	4,996	5,581	6,277	5,764	5,720	6,248	7,642	7,953	10,794	13,260	7,682	89,068
FY2005	7,686	5,599	5,671	6,692	6,452	6,057	6,146	6,761	6,646	9,806	8,370	8,244	86,130
FY2006	8,216	5,714	6,245	6,771	6,371	6,161	6,869	8,024	8,720	9,624	11,442	10,709	94,866
FY2007	8,269	5,514	6,238	6,979	6,649	6,370	6,601	7,707	9,592	11,937	9,590	11,711	97,157
FY2008	8,102	6,058	5,959	6,647	6,301	6,732	6,842	7,537	9,211	14,486	12,531	8,895	99,301
FY2009	9,106	6,805	6,714	7,475	7,335	6,829	7,279	8,066	7,826	10,524	9,876	8,712	96,547
FY2010	7,168	6,478	6,893	7,800	7,231	7,318	7,990	8,545	10,653	11,529	14,177	10,214	105,996
FY2011	10,030	7,044	7,224	7,454	7,240	7,455	8,028	8,357	10,004	9,024	10,901	7,791	100,552
FY2012	8,354	6,454	7,371	7,902	7,273	7,323	7,525	8,990	10,586	11,874	13,626	9,870	107,148
FY2013	10,256	7,736	7,270	7,368	7,186	7,126	7,079	7,768	11,023	14,678	14,824	9,986	112,299
3-year Avg	9,547	7,078	7,288	7,574	7,233	7,301	7,544	6,372	10,538	11,859	13,117	9,216	106,666
5-year Avg	8,983	6,903	7,094	7,599	7,253	7,210	7,580	8,345	10,018	11,526	12,681	9,315	104,508
10-year Avg	8,434	6,240	6,517	7,136	6,780	6,709	7,061	7,940	9,421	11,428	11,860	9,381	98,906

COLL Counnt CDF	Month 1	2	3	4	5	6	7	8	9	10	11	12	as of Feb 2014
FY2003	1.029	1.032	1.034	1.043	1.045	1.055	1.074	1.055	0.981	0.976	0.984	1.384	1.044
FY2004	1.035	1.040	1.041	1.045	1.055	1.056	1.084	1.051	0.975	0.978	0.994	1.636	1.057
FY2005	1.034	1.042	1.036	1.050	1.057	1.077	1.080	1.039	0.964	0.974	0.988	1.339	1.047
FY2006	1.041	1.040	1.049	1.052	1.063	1.071	1.083	1.040	0.956	0.965	0.999	1.548	1.065
FY2007	1.044	1.048	1.057	1.065	1.074	1.095	1.107	1.064	0.959	0.963	1.000	1.527	1.074
FY2008	1.046	1.057	1.063	1.065	1.079	1.086	1.099	1.054	0.965	0.971	1.003	1.420	1.057
FY2009	1.043	1.054	1.059	1.067	1.078	1.083	1.100	1.055	0.963	0.979	0.997	1.374	1.061
FY2010	1.049	1.058	1.063	1.076	1.085	1.098	1.126	1.120	0.957	0.975	1.019	1.908	1.093
FY2011	1.045	1.059	1.063	1.077	1.085	1.099	1.122	1.132	0.956	0.960	0.982	1.328	1.061
FY2012	1.035	1.045	1.050	1.058	1.068	1.081	1.111	1.111	0.925	0.932	0.967	1.642	1.056
FY2013	1.044	1.055	1.059	1.069	1.079	1.089	1.112	1.095	0.952	0.963	0.994	1.524	1.066
3-year Avg	1.043	1.054	1.058	1.070	1.079	1.093	1.120	1.121	0.946	0.955	0.990	1.618	1.070
5-year Avg	1.044	1.055	1.059	1.069	1.079	1.089	1.112	1.095	0.952	0.963	0.994	1.524	1.066
10-year Avg	1.040	1.048	1.052	1.061	1.070	1.081	1.100	1.073	0.959	0.967	0.993	1.504	1.062

Collision Severity @ 12 Months ('000)	Month												Sev @ 12 mo
	1	2	3	4	5	6	7	8	9	10	11	12	
FY2003	2,037	2,258	2,285	2,366	2,504	2,564	2,363	2,561	2,362	2,368	1,925	2,096	2,271
FY2004	2,268	2,267	2,260	2,364	2,558	2,474	2,474	2,569	2,453	2,264	2,000	2,145	2,314
FY2005	2,264	2,300	2,422	2,528	2,623	2,427	2,531	2,531	2,371	2,488	2,561	2,308	2,448
FY2006	2,322	2,338	2,423	2,481	2,662	2,679	2,567	2,692	2,525	2,369	2,308	2,455	2,471
FY2007	2,473	2,298	2,459	2,554	2,551	2,577	2,750	2,735	2,605	2,383	2,383	2,349	2,501
FY2008	2,470	2,368	2,382	2,605	2,585	2,707	2,726	2,649	2,720	2,367	2,417	2,607	2,532
FY2009	2,352	2,386	2,561	2,649	2,658	2,670	2,797	2,836	2,763	2,589	2,542	2,598	2,612
FY2010	2,399	2,488	2,669	2,696	2,764	2,715	2,840	2,932	2,774	2,532	2,612	2,962	2,687
FY2011	2,561	2,564	2,674	2,627	2,828	2,807	2,921	3,016	2,956	2,813	2,865	3,024	2,806
FY2012	2,843	2,737	2,839	2,846	2,971	2,998	3,029	3,219	2,944	2,771	2,793	3,071	2,907
FY2013	2,827	2,846	2,929	3,084	3,270	3,398	3,368	3,423	3,320	3,223	3,219	4,063	3,202
3-year Avg	2,744	2,716	2,814	2,852	3,023	3,068	3,106	3,219	3,073	2,936	2,959	3,386	2,972
5-year Avg	2,597	2,604	2,734	2,780	2,898	2,917	2,991	3,085	2,952	2,786	2,806	3,143	2,843
10-year Avg	2,478	2,459	2,562	2,643	2,747	2,745	2,800	2,860	2,743	2,580	2,570	2,758	2,648

Collision Severity @ Ultimate ('000)	Month												Sev a/o Feb 2014
	1	2	3	4	5	6	7	8	9	10	11	12	
FY2003	1,990	2,207	2,212	2,282	2,392	2,463	2,242	2,447	2,361	2,395	1,966	2,075	2,228
FY2004	2,208	2,197	2,184	2,260	2,439	2,377	2,339	2,478	2,491	2,299	2,019	2,077	2,265
FY2005	2,201	2,211	2,339	2,417	2,498	2,291	2,382	2,452	2,415	2,480	2,481	2,085	2,358
FY2006	2,250	2,253	2,323	2,380	2,531	2,515	2,429	2,564	2,527	2,343	2,222	2,204	2,366
FY2007	2,397	2,204	2,351	2,429	2,403	2,366	2,505	2,541	2,610	2,407	2,357	2,224	2,400
FY2008	2,401	2,271	2,269	2,465	2,430	2,519	2,501	2,497	2,755	2,382	2,362	2,354	2,434
FY2009	2,284	2,291	2,456	2,523	2,514	2,495	2,595	2,687	2,776	2,586	2,494	2,427	2,512
FY2010	2,319	2,405	2,561	2,590	2,603	2,517	2,606	2,696	2,792	2,526	2,541	2,431	2,556
FY2011	2,488	2,464	2,572	2,514	2,687	2,655	2,706	2,796	3,024	2,839	2,829	2,793	2,709
FY2012	2,777	2,656	2,753	2,746	2,850	2,825	2,833	3,057	3,068	2,911	2,901	2,843	2,867
FY2013	2,747	2,742	2,813	2,949	3,098	3,180	3,115	3,208	3,379	3,264	3,191	3,127	3,091
3-year Avg	2,671	2,621	2,713	2,736	2,878	2,887	2,885	3,020	3,157	3,005	2,974	2,921	2,889
5-year Avg	2,523	2,512	2,631	2,664	2,750	2,734	2,771	2,889	3,008	2,825	2,791	2,724	2,747
10-year Avg	2,407	2,369	2,462	2,527	2,605	2,574	2,601	2,698	2,784	2,604	2,540	2,456	2,556

COLL SEV CDF	Month												Sev a/o Feb 2014
	1	2	3	4	5	6	7	8	9	10	11	12	
FY2003	0.977	0.977	0.968	0.964	0.955	0.961	0.949	0.955	0.999	1.011	1.022	0.990	0.981
FY2004	0.974	0.969	0.966	0.956	0.954	0.961	0.945	0.965	1.015	1.016	1.010	0.968	0.978
FY2005	0.973	0.961	0.966	0.956	0.952	0.944	0.941	0.968	1.016	0.997	0.969	0.903	0.963
FY2006	0.969	0.963	0.959	0.959	0.951	0.938	0.946	0.952	1.001	0.989	0.963	0.898	0.957
FY2007	0.969	0.959	0.956	0.951	0.942	0.918	0.911	0.929	1.002	1.010	0.989	0.947	0.960
FY2008	0.972	0.959	0.952	0.946	0.940	0.931	0.918	0.943	1.013	1.007	0.977	0.903	0.961
FY2009	0.971	0.960	0.959	0.953	0.946	0.936	0.928	0.948	1.005	0.999	0.981	0.934	0.962
FY2010	0.967	0.967	0.959	0.961	0.942	0.927	0.917	0.920	1.006	0.998	0.973	0.821	0.951
FY2011	0.972	0.961	0.962	0.957	0.950	0.946	0.926	0.927	1.023	1.009	0.987	0.924	0.966
FY2012	0.977	0.970	0.970	0.965	0.959	0.942	0.936	0.950	1.042	1.051	1.039	0.926	0.986
FY2013	0.972	0.963	0.961	0.956	0.947	0.936	0.925	0.937	1.018	1.013	0.991	0.901	
3-year Avg	0.972	0.966	0.964	0.961	0.950	0.938	0.926	0.932	1.024	1.019	1.000	0.890	
5-year Avg	0.972	0.963	0.961	0.956	0.947	0.936	0.925	0.937	1.018	1.013	0.991	0.901	
10-year Avg	0.972	0.965	0.962	0.957	0.949	0.940	0.932	0.946	1.012	1.009	0.991	0.921	

CAC (MPI) 2-36 **Reference: Page 5 of section AI.9**

Please show the derivation of the proposed average rate of $1,003 shown for Major Class Private Passenger in the table.

RESPONSE:

Refer to Page 9 of section AI.9 (Volume III Actuarial Standards Compliance).

CAC (MPI) 2-37 **Reference: Quote on page 3 of Section AI.9**

a) Please provide the amount of investment income from retained earnings that would not be included in the rate indications determined in accordance with accepted actuarial practice in Canada.

b) Please calculate the rate indications determined in accordance with accepted actuarial practice in Canada if the investment income from retained earnings was divided by the 2015/16 projected units and used as an offset to the indicated required rate.

RESPONSE:

a) Refer to PUB (MPI) 1-46.

b) Refer to PUB (MPI) 1-46.

CAC (MPI) 2-38 **Reference:** **Response to CAC (MPI) 1-209, page 6 of Section AI.9**

Please confirm that the -5.1% profit provision was simply determined so that the rate indication was the same as with the Corporation`s normal fiscal year approach to ratemaking.

RESPONSE:

The -5.1% profit provision was selected such that the average required rate would produce break-even revenue over the rating period. This method is the current PUB approved methodology for determining the Corporation's overall revenue requirement.

CAC (MPI) 2-39 Reference: Response to CAC (MPI) 1-210

a) Please confirm the figures in the following table, taken from Appendix E Sheet 6. If these figures cannot be confirmed please give the correct figures.

Tabular Reserve 116 – Ultimate [1]	Product (116-128 Factor to 200-212 Factor) [2]	Ratio [1]/[2]
0.7564	0.7306	1.0354
0.8388	0.8284	1.0125
0.9449	0.9351	1.0105
0.9705	0.9576	1.0134
1.0288	1.0127	1.0159
0.9595	0.9540	1.0058
1.0523	1.0298	1.0219
0.9996	0.9986	1.0010
1.0648	1.0669	0.9980

b) Please show the derivation of the tail factor of 1.0356 shown on Appendix E, Page 6 using these figures.

RESPONSE:

a) Confirmed.

b) The factors provided in columns 2 and 3 are inappropriate to use to derive a selected factor as the factors in each column are not consistent. For example, the 0.9986 (in column 2) is a 116-140 factor whereas the 1.0669 is a 116-128 factor. Similarly the 1.0010 (in column 3) is a 140-Ultimate factor whereas the 0.9980 is a 128-Ultimate factor.

As noted in Appendix E, Page 5, "212-Ult Factor = [Tab Rsv 116-Ult] / Product [116-128 Factor to 200-212 Factor]". The "Product [116-128 Factor to 200-212 Factor]" is 0.9752 based on the selected factors. The "Tab Rsv 116-Ult" is 1.0100. Therefore the 212-Ult factor is 1.0356 = 1.0100 / 0.9752.

CAC (MPI) 2-40 Reference: Appendix F, Page 11

Please show the derivation of the 212 to ultimate factor of 1.0406.

RESPONSE:

Per the note on Page 10, *"212-Ult Factor = 1.0023 ^ (17 + 1/3)"*.

CAC (MPI) 2-41 **Reference:** **Response to CAC (MPI) 1-160 (a), (d) (ii)**

a) MPI neglected to provide a substantive answer to CAC 1-160 (a). Please respond substantively to the original request

b) Please give the requested tables from 1-160 d (ii). Since the Corporation has not had direct discussions with the Board on what would be an acceptable increase in rates in response to a severe adverse event this is a valid request.

RESPONSE:

a) The Corporation disagrees with this assertion. See CAC (MPI) 1-160 (a).

b) The Corporation has applied a 10% rate increase to the 2016/17 year and removed all other rate increases there after following the table below.

	2014/15	2015/16	2016/17	2017/18	2018/19
Rate Changes	0.90%	2.40%	10.00%	0.00%	0.00%
Cumulative RSR Fees	0.00%	1.00%	1.00%	1.00%	1.00%

Retained Earnings (in millions) – Adverse Scenarios including 10% Rate Increase

Scenario	2014/15	2015/16	2016/17	2017/18	2018/19
Base	$72	$80	$91	$131	$153
Combined Scenario	$72	($14)	($4)	$17	$41
Interest Rate Decline	$72	($11)	($5)	$41	$98
Equity Decline (1 year)	$72	$56	$106	$204	$297
Equity Decline (2 year)	$72	$66	$115	$211	$301
High Loss Ratio	$72	$14	$79	$237	$306

Total Equity (in millions) – Adverse Scenarios including 10% Rate Increase

Scenario	2014/15	2015/16	2016/17	2017/18	2018/19
Base	$143	$158	$177	$212	$229
Combined Scenario	$143	$52	$57	$76	$99
Interest Rate Decline	$143	$66	$81	$136	$191
Equity Decline (1 year)	$143	$2	$70	$187	$298
Equity Decline (2 year)	$143	$67	$63	$178	$288
High Loss Ratio	$143	$92	$152	$320	$386

Minimum Capital Test Ratios – Adverse Scenarios including 10% Rate Increase

Scenario	2014/15	2015/16	2016/17	2017/18	2018/19
Base	41.5%	42.3%	45.2%	54.6%	58.2%
Combined Scenario	41.5%	13.3%	13.4%	16.4%	20.0%
Interest Rate Decline	41.5%	16.5%	18.2%	28.8%	40.1%
Equity Decline (1 year)	41.5%	0.6%	19.0%	48.1%	73.5%
Equity Decline (2 year)	41.5%	18.6%	16.9%	46.2%	71.5%
High Loss Ratio	41.5%	24.5%	39.2%	79.5%	92.8%

CAC (MPI) 2-42 **Reference: Response to CAC (MPI) 1-160 (c)**

How does the Corporation classify the interest rate decline scenario as plausible given the Government of Canada's inflation-control target?

RESPONSE:

While the Bank of Canada "aims to keep total CPI inflation at the 2 per cent midpoint of the a target range of 1 to 3 per cent over the medium term", clearly it is possible that inflation could fall outside of the Bank of Canada's target range of 1% – 3% as the Bank of Canada's ability to influence the inflation rate through its administered policy rate has limitations.

CAC (MPI) 2-43 **Reference: Response to CAC (MPI) 1-160 (e)**

Does the Corporation feel that its approach is realistic given the strong connection between interest rates and inflation?

RESPONSE:

Yes, because by definition undiscounted claims are not impacted by changes in interest rates.

CAC (MPI) 2-44 **Reference: Response to CAC (MPI) 1-160 (g)**

Would the Corporation agree that the rebound would normally be quicker than the assumptions shown on Page 30 of the DCAT report? If not, please explain the justification for this disagreement.

RESPONSE:

No, because the data shown on page 30 of the DCAT report is based on actual historical returns for the Canadian equity market.

CAC (MPI) 2-45 Reference: Response to CAC 1-29 (c)

Please confirm whether the case reserve review included a review of the tabular reserving assumptions.

RESPONSE:

The case reserve review was conducted only to ensure compliance with existing reserving guidelines. It did not include a review of tabular reserving assumptions. However, the tabular reserving assumptions are reviewed and monitored by the actuarial department (e.g. see page 55 of the 2014 DCAT Report).

CAC (MPI) 2-46 **Reference: Page 10 of Section AI.9 of the rate application**

It appears that the rate indication uses projected claims costs for the 2015/16 and the 2016/17 year.

a) Please confirm this.

b) If confirmed, please explain the reasoning of this given that the rate application is meant to determine adequate rates for the period of March 1, 2015 to February 28, 2016.

RESPONSE:

a) Confirmed.

b) As a result of staggered renewals, i.e. policies are renewed throughout the rating year, claims costs are incurred from March 1, 2015 to February 28, 2017 for policies with rating year 2015/16.

CAC (MPI) 2-47 **Reference: Response to CAC (MPI) 1-206**

Please explain why the payments are discounted from the end of the development quarter to the end of rating year 2015/16 when the year for which the rates are to be calculated for is 2015/16 and the claims should therefore be discounted to the midpoint of 2015/16.

RESPONSE:

As a result of staggered renewals, i.e. policies are renewed throughout the rating year, policies with rating year 2015/16 are effective from March 1, 2015 to February 28, 2017. The midpoint of the period is February 28, 2016 i.e. the end of rating year 2015/16.

CAC (MPI) 2-48 **Reference: CAC-MPI 1-146 (f), Chart 1.1 in Investment Income page 12**

Preamble: Chart 1.1 on page 12 of Investment Income provides 7 years of February interest rate forecasts for GOC 10 year bonds, each of which shows that "interest rates were forecasted to increase" in each of 2008 through 2014. The reply in CAC-MPI 1-146 (f), offers 3 reasons for the change of bandwidth of the duration mismatch from +/-1.5 to +/-2. The third of these reasons was "interest rates were forecasted to increase".

a) Since interest rates were apparently forecast to increase in each of those periods in Chart 1.1, please quantify the relative interest rate forecast changes that gave significance to the particular forecast interest rate changes that lead to the change in the allowed bandwidth of duration mismatch?

b) Please identify the specific interest rate forecast most relevant to the 2010 change in duration variance bandwidth, and compare that forecast to the current interest rate forecast indicating the conclusion that should be drawn from the current forecast on the current duration variance bandwidth policy.

c) Please describe forecast interest rate conditions which would indicate a need to expand the bandwidth of the duration mismatch.

d) With the continuation of interest rates being "forecasted to increase" what other factors have lead to the apparent reversal of the 2010 policy change to decrease the bandwidth from +/- 2 to now +/- 1.

e) Assuming that the duration variance bandwidth is one of the measures of MPI's interest rate risk tolerance, please identify any other important measures of interest rate risk tolerance.

f) Assuming that the duration variance bandwidth is one of the measures of MPI's interest rate risk tolerance and observing that the measure is being reduced by

50% [(2-1)/2=50%], please identify causes that have lead to this significant adjustment or factors that counterbalance this change.

RESPONSE:

a) This question refers to the change to the duration bandwidth in 2010. Historical decisions on this topic have no bearing on the current Rate Application.

b) This question refers to the change to the duration bandwidth in 2010. Historical decisions on this topic have no bearing on the current Rate Application.

c) The Asset Liability Management (ALM) Study is currently in progress. Until the ALM study is completed, the duration bandwidth is not expected to change.

d) Volume II Investment Income, Attachment B provides a discussion of the reasons that the duration bandwidth was changed from +/- 2.0 years to +/- 1.0 year.

e) The duration variance bandwidth is the only formal "measure of interest rate risk tolerance" used by the Corporation.

f) Please see the response in d).

CAC (MPI) 2-49

Reference: **CAC-MPI 1-146 (f). Actuary Report October 31, 2013 AI.7 PDF page 43, Investment Income II.16 Appendix 4 Rebalancing policy**

Preamble: The reply CAC-MPI 1-146 (f), offers 3 reasons for the increase of bandwidth of the duration mismatch from +/-1.5 to +/-2 during 2010. The second of these reasons was "elimination of real return bonds and the addition of long bonds". The Actuary Report October 31, 2013 AI.7 PDF page 43, provides a table which indicates $187,000 of real return bonds in the portfolio and indicates a nominal yield of 3.75% relative to the Govt Bonds which represented $631 million and a nominal yield of 3.22%. Investment Income II.16 Appendix 4 Rebalancing policy indicates a 0% current target for real return bonds but an allowed 5% maximum portfolio weighting for real return bonds.

a) Since interest rates were apparently forecast to increase in each of those periods, please compare the importance of the second reason offered in CAC-MPI 1-146 (f), the "elimination of real return bonds and the addition of long bonds" to the third reason, that "interest rates were forecasted to increase" that contributed to the change in the allowed bandwidth of duration mismatch?

b) Please discuss the implications on the asset duration calculation of the substitution of long bonds for real return bonds, and to highlight the effect of differing coupon rates, please contrast December 1 2026 GOC real return bond, with a Canada bond of similar maturity, perhaps the June 2027 maturity: or, the December 1, 2047 real return bond with a bond of similar maturity perhaps the December 2045 maturity.

c) Are we correct in thinking that as Real Return Bonds have a maximum 5% weighting, and were not expunged as an asset class from the investment policy document, that they may return to the portfolio when thought expedient?

d) In light of the rapid time line to from spring 2014 to August 2014 to address the fixed in duration change, was there a special reason why the change proportion of real return bonds was not completed until after the 2013 actuarial report?

RESPONSE:

a) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

b) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

c) The Corporation is awaiting the results of the upcoming ALM study to determine if the allocation to Real Return Bonds will be increased or removed from the Investment Policy Statement.

d) The last remaining real return bond was a small illiquid position which was held until it matured in December 2013.

CAC (MPI) 2-50

Reference: CAC-MPI 1-146 (f). Actuary Report October 31, 2013 AI.7 PDF page 43

Preamble: The reply CAC-MPI 1-146 (f), offers 3 reasons for the increase of bandwidth of the duration mismatch from +/-1.5 to +/-2. The first of these reasons was "the definition of the liabilities was changed from total liabilities to claims liabilities".

Please quantify the change in dollar and percentage terms for the year in which the change was made.

RESPONSE:

"*Total liabilities*" as used in CAC (MPI) 1-146 (f) refers to the sum of unearned premium liabilities and claim liabilities. Based on the Corporation's balance sheet for Basic as of February 28, 2011, the unearned premium liabilities and claim liabilities are $379 million and $1,322 million respectively. As such, the change in dollars is a decrease of $379 million, representing 22.3% of total liabilities.

CAC (MPI) 2-51

Reference: CAC-MPI 1-146 (f), Attachment C Investment Income – Duration Matching, page 2, Investment Income –Attachment C page 18 by PWC

Preamble: In CAC-MPI 1-146 (f), a table is supplied that shows Liability Duration varying from 8.9 to 9.4 between February 2010 to May 2014, a change of about 5% [(9.4-8.9)/9.4=5.3%]. Between 2010 and 2014 the allowed bandwidth of the duration mismatch has increased from +/-1.5 to +/-2 and is now being reduced to +/-1, the latter being a 50% drop. In Attachment C, at page 18, the authors observe that "Tolerable ranges were generally within +/-5% -10%" and, that organizations "with shorter term liabilities had higher tolerance for mismatch". At line 27 of page 2 of the Duration Matching Discussion Paper, MPI indicates that the "duration bandwidth ... was increased from +/- 1.5 years to +/- 2 years which increased the Corporation's exposure to interest rate risk." The Saskatchewan Auto Fund had indicated that for all "Liability Cash Flow Buckets with terms over 1 year, asset cash flows are to be matched to within +/- 5%", [see http://www.saskratereview.ca/images/docs/sgi-2013/saf-minimum-filing-requirements-srrp-website.pdf at PDF page 222 of 279].

a) As the PWC document discussed duration variance bandwidth in percentage terms, and MPI discusses its duration variance bandwidth as +/-2, +/-1.5, or +/-1, is it correct to compare the MPI +/-2 to the liability duration value to calculate a percentage value for comparison, and if not, why not?

b) Is it correct to conclude that the 10% maximum range indicated by PWC, when considered with reference to the recent MPI liability duration of 9.4, would indicate a range of +/- 0.94 as the maximum limit of the "Tolerable" range?

c) Are we correct in concluding that the Saskatchewan Auto Fund +/-5% bandwidth, indicates a lower tolerance for interest rate risk than the +/-1 duration variance bandwidth used by MPI, and assuming each organization stayed with its policy

bandwidth, exposes Saskatchewan consumers to a lower level of interest rate risk than Manitoba consumers?

d) To the extent that it is known to MPI what proportion of the PWC sample were within a +/-5% range?

e) Should we understand that with a liability duration ranging from 8.9 to 9.4 between February 2010 to May 2014, indicates it MPI is an organization with primarily

(i) "shorter term liabilities" and therefore having a higher tolerance for mismatch,

(ii) Longer term liabilities and therefore having a materially lower tolerance for mismatch, or,

(iii) Average term liabilities and therefore having a lower tolerance for mismatch.

RESPONSE:

a) No, because the PWC document discussed the duration variance bandwidth in percentage terms for companies which utilized cash flow matching to minimize their interest rate risk. Manitoba Public Insurance utilizes duration matching with a variance bandwidth in years. The two interest rate risk methodologies are different and are not comparable.

b) No, the Corporation did not utilize a percentage range when it set the current duration variance bandwidth of +/- 1 year.

c) Saskatchewan Auto Fund's +/- 5% bandwidth is based on a cash flow matching method of minimizing interest rate risk while Manitoba Public Insurance's +/- 1 year bandwidth is based on duration matching to minimize interest rate risk. The

two methods are different. The upcoming ALM study will provide the Corporation with guidance for minimizing interest rate risk.

d) One out of four companies in the PWC sample was within a +/- 5% range.

e) The classification of liabilities as short-term or long-term depends on the context. The Corporation's liability duration is short relative to the typical pension plan and long relative to other auto P&C insurance companies (which generally operate in a tort environment).

CAC (MPI) 2-52

Reference: CAC-MPI 1-146 (f), Attachment C Investment Income – Duration Matching, page 2, Investment Income –Attachment C page 18 by PWC

Preamble: In CAC-MPI 1-146 (f), a table is supplied that shows the Duration Variance is in excess of the +/-2 bandwidth on 6 occasions between February 2010 to May 2014, one third of the 18 data points in that period, and reached a high of -2.7 in August 2010. In Attachment C, at page 18, the authors observe that "Tolerable ranges were generally within +/-5% -10%" and that organizations "with shorter term liabilities had higher tolerance for mismatch". At line 27 of page 2 of the Duration Matching Discussion Paper, MPI indicates that the "duration bandwidth ... was increased from +/- 1.5 years to +/- 2 years which increased the Corporation's exposure to interest rate risk."

a) As the August 2012 Variance Duration data point is 2.0, please increase the level of accuracy and confirm whether as at August 2012 the Variance Duration was below or above 2.0?

b) Please discuss the organization consequences, if any, to the frequent breaches of this +/- 2 years policy limit, between February 2010 and May 2014.

c) Please assist us in understanding how we should measure the increase in risk of a -2.7 duration variance, in light of the "Tolerable range" being "generally within +/-5% -10%"identified by PWC. Was MPI's interest rate risk exposure 170% greater than the 10%" upper limit of the "Tolerable range"?

d) Please assist us in understanding how we should measure the increase in risk of a -2.7 duration variance, in light of MPI's then maximum policy limit of +/-2. Was MPI's interest rate risk exposure increased on a linear mathematical basis, or on another basis reflecting the probability of interest rate variance outcomes?

RESPONSE:

a) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

b) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

c) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

d) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

CAC (MPI) 2-53

Reference: CAC-MPI 1-122, Investment Income II.1.2 page 14, page 27 Investment Income ii.3.3.2.1

Preamble: In the reply CAC-MPI 1-122, MPI indicates that it is forecasting a duration gap of -1.1 as at February 2016 and continuing to February 2019. Investment Income II.1.2 page 14 notes the reduction of the duration bandwidth to "+/- 1.0". Page 27 of Investment Income II.3.3.2.1 discusses a reasonable timeline and identifies August 2014 as the date "to increase the fixed income duration so that it is within the revised +/- 1.0 year bandwidth."

a) In light of August 2014 date for compliance, why is the forecast duration gap for 2016 through 2019 above the Investment Policy limit?

b) Please identify the financial consequences of this variance in the modeling on investment income.

RESPONSE:

a) In reality, the claims duration from the previous month is provided to the fixed income manager which is used to determine the duration of the fixed income portfolio based on the desired duration gap between the claims liability and the fixed income portfolio. For example, the claims duration as of February 28 will be used by the bond manager to determine the duration of the fixed income portfolio in March.

This lag between the claims duration and the fixed income duration is also captured by the financial model through an iterative process. Therefore, the modeled duration gap is unlikely to be exactly -1.0, especially while interest rates are forecasted to increase each quarter over the five year period. The integrated relationship within the model between the claims duration and the fixed income

duration is explained on page 24 and 25 of the Financial Model Guide AI.11 (Volume III).

b) To estimate the impact of this variance, the duration gap was lowered from -1.0 to -0.9. The average rating year impact on net income of lowering the duration gap by 0.1 year was -$0.27 million.

CAC (MPI) 2-54

Reference: CAC-MPI 1-146 (f) and (g), Attachment C Investment Income – Duration Matching, page 2, Investment Income –Attachment C page 18 by PWC

Preamble: In CAC-MPI 1-146 (f), a table is supplied that shows the Fixed Income Assets and Aggregate Claims Liability between February 2010 to May 2014. In CAC-MPI 1-146 (g), we are told that immunization has 3 requirements, equal average duration, adequate value of assets, and, appropriate dispersion of assets. In Attachment C, at page 18, the authors observe that "Tolerable ranges were generally within +/-5% -10%" and that organizations "with shorter term liabilities had higher tolerance for mismatch". At line 27 of page 2 of the Duration Matching Discussion Paper, MPI indicates that the "duration bandwidth ... was increased from +/- 1.5 years to +/- 2 years which increased the Corporation's exposure to interest rate risk."

a) Would immunization of the claims liability operate to protect MPI and the consumer from interest rate risk, and if not, why not?

b) In instances when the value of fixed income assets are less than the Aggregate Claims Liability, does this condition increase potential financial consequence of the interest rate risk to which MPI and its consumers are exposed?

c) Does MPI have any policy with respect to maintaining the market value of its fixed income assets as being at least equal to the value of its claims liabilities, beyond the allocations and polices related to rebalancing found in IPS?

d) Does MPI have any policy with respect to asset dispersion in relation to the dispersion of its claims liabilities?

e) CAC observes that the table provided in CAC-MPI 1-146 (f) indicates as at February 2014 the Claims Liabilities exceeded the Fixed Income Assets by approximately 5.3% at a time when the Duration variance was -2.2, and wonders

how one would quantify the compounding of the duration variance in excess of the then policy limit and asset liability shortfall?

f) Please discuss the symmetry of dispersion of assets and the dispersion of liabilities as at February 2014.

g) CAC observes that the table provided in CAC-MPI 1-146 (f) indicates as at February 2012 the Claims Liabilities exceeded the Fixed Income Assets by approximately 10.1% at a time when the Duration variance was -0.8, and wonders how one would quantify the interest rate risk exposure due to the shortage of approximately $150,000,000 of fixed income assets and the then duration variance.

h) Please discuss the symmetry of dispersion of assets and the dispersion of liabilities as at February 2012.

RESPONSE:

a) Yes, the Minister of Finance is actively considering immunization of the claims liability, potentially by adopting a cash flow matching strategy to protect the investment portfolio from interest rate risk. Phase 1 of the upcoming ALM study will recommend an appropriate risk mitigation strategy.

b) Yes.

c) The Minister of Finance has not adopted a formal policy requiring the market value of the Corporation's fixed income assets to be at least equal to the value of its claims liabilities; however, the Corporation monitors the values of its fixed income assets, claims liabilities and the difference on a monthly basis and reports this information to the Department of Finance.

d) No, the Minister of Finance has not adopted a policy regarding the dispersion of the Corporation's assets and liabilities.

e) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

f) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

g) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

h) Past decisions have no bearing on the Corporation's forecast of investment income and the Rate Application for the 2015 GRA.

CAC (MPI) 2-55 **Reference: CAC-MPI 1-146 (f), PUB MPI 1-141, CAC MPI 1-93**

Preamble: The reply CAC-MPI 1-146 (f), offers 3 reasons for the increase of bandwidth of the duration mismatch from +/-1.5 to +/-2. None of the reasons advanced included the "benefit" of duration mismatch. PUB MPI 1-141 discusses "cash flow matching" and notes that cash flow matching would "largely eliminate the projected net benefit" as a result of "rising interest rates and the duration mismatch". CAC MPI 1-93 indicates no "material changes to the risk profile, other than ... interest rate forecasting risk ... "

a) Please contrast "cash flow matching" as MPI has used that term, and, immunization.

b) Please identify the actual net benefit enjoyed in 2009/10 and 2013/14, and provide the calculation thereof.

c) Please indicate how the benefit is affected by shortfalls of interest income investments relative to claims liabilities.

d) As MPI has noted that bank forecasts tend to overstate actual interest rate increases, is the "projected net benefit", also overstated?

e) Please identify where the "projected net benefit" for 2014/15 appears in the application.

f) Has the reduction in the duration mismatch bandwidth reduced the "projected net benefit", and if so, please quantify the change?

RESPONSE:

a) Immunization aims to construct a portfolio that, over a specified time horizon, will earn a predetermined return regardless of interest rate changes. This is accomplished by balancing price risk with reinvestment risk.

The three requirements for successful immunization were provided in the response to CAC (MPI) 1-146 (g).

Cash flow matching requires holding a bond portfolio that matches the timing and amount of the projected liability cash flows. The goal is to fund a future stream of liabilities from the coupon and matured principle payments derived from a fixed income portfolio.

Source: "Fixed Income and Equity Portfolio Management", CFA Program Curriculum, Volume 4, Level III, ©2011 by CFA Institute, pages 25 – 48.

b) Past decisions have no bearing on the Corporation's forecast of investment income and the rate application for the 2015 GRA.

c) When the market value of fixed income investments is less than the market value of claims liabilities there is a negative surplus. A rising interest rate environment will reduce that deficit as the market value of liabilities will fall faster than the market value of the fixed income investments when the duration of assets is lower than the duration of the liabilities.

d) Yes, the projected net benefit is overstated.

e) The benefit of the forecasted increase in interest rates and the current duration mismatch of 1 year is explained on page 11 of the Pre-Filed Testimony of Mr. Guimond.

f) Yes, the duration mismatch bandwidth has reduced the "projected net benefit". The basic net income impact is quantified in the table below relative to the 2015 GRA base.

Income Impact of -2.0 Duration Gap compared to Base (1.0 Duration Gap)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
-2.0 Duration Gap	(37,257)	(1,531)	19,334	29,995	23,773
2015 GRA Base Scenario*	(38,042)	(6,337)	17,993	26,651	25,046
Difference	785	4,806	1,341	3,344	(1,273)

*-1.0 Duration Gap starting in Q2 2014/15

CAC (MPI) 2-56 **Reference: PUB-MPI 1-9, PUB-MPI 1-10, PUB MPI 1-22**

Preamble: MPI has indicated that there are financial consequences to embracing the banks' interest rate forecasts used in its application, should they not be achieved. CAC observes that the bank forecasts have now be revised and generally reflect lower actual rates than those initially forecast for the first 2 quarters of 2014 and a reduction of forecast rates for the balance of 2014 and 2015. For example see http://www.bmonesbittburns.com/economics/current/summary.pdf for the most recent BMO forecast and http://research.cibcwm.com/economic_public/download/rates.pdf for the most recent CIBC forecast. CAC estimates that the changes in forecast GOC 10 year rates, for the 5 banks [excluding Global], for the 6 quarters 3Q 2014 to and including 4Q 2015 would average 40 basis points in reduced interest rates per quarter.

a) Please update PUB MPI 1-9 to reflect the July August bank interest rate forecasts, and the most recent Global forecast.

b) Please provide the dates of the bank forecasts employed and the Global forecast data points.

RESPONSE:

a) PUB (MPI) 1-9 states that if the risk tolerance adjustment is applied (low growth interest rate forecast), retained earnings would fall by a further $16 million and the applied for rates would be deficient by at least 1.9% (even with the 2.4% applied for). Updating this response using the August 2014 interest rate forecast, retained earnings would fall by $15 million instead of $16 million, and the applied for rates would be deficient by at least 1.8% (even with the 2.4% applied for) instead of 1.9%.

   The biggest impact of using the August 2014 interest rate forecast relative to the March 2014 forecast is the impact of lower interest rates on net income in the

first year (2014/15). Applying the August 2014 risk tolerance adjustment (low growth interest rate forecast) in 2014/15, net income is forecasted to be -$87.1 million dollars, which is significantly lower than the -$38.0 million dollar net loss projected for 2014/15 in the rate application (Volume I Pro Formas PF.1). As a result, retained earnings fall below zero during the rating years (even with the requested 2.4% rate increase). This scenario further illustrates the risk to rate setting if the March 2014 interest rate forecast does not materialize as projected.

b) The dates of the bank and Global forecast data points used are found in the table below.

Data sources dates:
BMO NB as of August 1, 2014
CIBC as of August 5, 2014
Global Insight as of August 2014
RBC as of August 2014
Scotiabank as of July 31, 2014
TD as of August 8, 2014

CAC (MPI) 2-57

Reference: **PUB-MPI 1-10. Investment Income Summary of Investment Income page 5, Exhibit 1g Base Scenario Rate Stabilization Reserve DCAT Exhibit 1.**

Preamble: MPI has indicated that there are financial consequences to embracing the banks' interest rate forecasts used in its application, should they not be achieved. CAC observes that the bank forecasts have now be revised and generally reflect lower actual rates than those initially forecast for the first 2 quarters of 2014 and a reduction of forecast rates for the balance of 2014 and 2015. For example see http://www.bmonesbittburns.com/economics/current/summary.pdf for t he most recent BMO forecast and http://research.cibcwm.com/economic_public/download/rates.pdf for the most recent CIBC forecast. CAC estimates that the changes in forecast GOC 10 year rates, for the 5 banks [excluding Global], for the 6 quarters 3Q 2014 to and including 4Q 2015 would average 40 basis points in reduced interest rates per quarter.

Based on earlier forecasts the Summary of Investment Income shows the realized and unrealized gains and losses substantially exceeding the interest income during the forecast period for marketable bonds. CAC anticipates that using the more current forecasts will alter the realized and unrealized gains by a greater degree than the change in interest income for the forecast periods presented.

a) Please update the table on Summary of Investment Income page 5, to reflect the July August bank interest rate forecasts, and the most recent Global forecast.

b) As CAC observes that while many of the numbers presented in the tables in Investment Income Summary of Investment Income page 5, and Exhibit 1g Base Scenario Rate Stabilization Reserve DCAT Exhibit 1, are similar, there are more significant variances in the results in 2016/17 and 2017/18, and requests that MPI identify the factors that cause the variance in total interest income, total dividends and other income, and, total gains during the period.

RESPONSE:

a) Please see attached.

b) Section 4 of the DCAT, page 23 to page 25, explains the impact of the revised Deferred Policy Acquisition Costs (DPAC) on the restated base scenario in the DCAT report. The majority of the difference between the Summary of Investment Income and Exhibit 1g is the timing of the rebalance for the Canadian equity portfolio. In the Summary of Investment income, the Canadian equity portfolio rebalances in 2016/17. In Exhibit 1g, because of the revised DPAC, the Canadian equity portfolio rebalances in 2017/18.

August 2014 Update to Standard Interest Rate Forecast

	Reference Section #	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
							Forecasted				
Interest Income During Period											
Cash/Short Term Investments	Section 1	34	381	1,075	1,132	1,112	597	309	713	2,131	3,627
Marketable Bonds	Section 2	51,995	50,997	40,704	35,370	31,095	32,338	30,132	31,536	37,165	41,080
MUSH	Section 3	26,612	27,661	28,516	29,091	29,818	30,191	30,937	31,306	32,498	33,663
Total		**78,641**	**79,039**	**70,295**	**65,594**	**62,025**	**63,125**	**61,378**	**63,555**	**71,794**	**78,369**
Dividend and other Income											
Canadian Equities	Section 5	8,267	8,806	9,449	11,058	12,658	11,216	12,867	13,596	12,538	13,782
US Equities	Section 6	1,313	1,388	2,995	-	1,363	3,256	3,647	4,240	4,553	4,976
Real Estate (CityPlace)	Section 7B	670	732	1,502	1,751	2,529	3,366	3,433	3,502	3,572	3,643
Infrastructure	Section 8			1,164	12,783	2,573	3,050	5,411	8,823	10,955	10,955
Total		**10,250**	**10,926**	**15,110**	**25,592**	**19,123**	**20,888**	**25,359**	**30,160**	**31,618**	**33,356**
Gains During Period - Profit & Loss											
Marketable Bonds Unrealized Gains/(Loss)	Section 3	14,575	3,208	26,122	(9,075)	(15,792)	(38,190)	(47,264)	(26,645)	(11,457)	4,456
Marketable Bonds Realized Gains/(Loss)	Section 3	16,942	14,822	39,704	17,054	(9,822)	(1,273)	(6,693)	(4,661)	(2,022)	786
MUSH	Section 4	-	-	-	-	-	-	-	-	-	-
Canadian Equities Realized Gains	Section 5	(12,627)	14,288	2,127	5,337	57,372	16,195	16,382	31,006	13,874	14,446
US Equities Realized Gains	Section 6	10,356	3,625	-	-	58,101	-	-	-	-	18,624
Real Estate	Section 7A	-	3,455	15,631	18,915	19,917	10,611	13,323	16,011	16,972	17,990
Infrastructure	Section 8	-	-	-	-	-	-	-	-	-	-
Total		**29,246**	**39,398**	**83,584**	**32,231**	**109,776**	**(12,657)**	**(24,252)**	**15,711**	**17,367**	**56,302**
Other											
Investment Fees Paid	Section 9	(2,715)	(3,123)	(3,091)	(4,280)	(4,075)	(3,803)	(4,258)	(4,587)	(4,762)	(4,981)
Pension Expense	Section 9	(12,336)	(20,342)	(27,470)	(17,118)	(11,710)	(11,752)	(12,338)	(12,951)	(13,594)	(14,268)
Amortization of Bond Premium/Discount	Section 9	(3,744)	(4,939)	(4,911)	(5,872)	(2,607)					
Venture Capital Income	Section 9	-	519	-	2,037	262					
Investment Write-Down		(3,061)	(736)	(14,540)	(3,957)	-	-	-	-	-	-
Total		**(21,855)**	**(28,621)**	**(50,012)**	**(29,190)**	**(18,654)**	**(15,555)**	**(16,596)**	**(17,538)**	**(18,356)**	**(19,249)**
Total Investment Income		**96,282**	**100,742**	**118,976**	**83,169**	**172,123**	**55,801**	**45,889**	**91,888**	**102,423**	**148,778**
Basic Allocation Investment Income	Section 9	84,145	83,808	101,130	68,094	147,735	46,773	38,464	77,021	85,851	124,706
Basic Allocation (%)		87.4%	83.2%	85.4%	86.2%	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%

CAC (MPI) 2-58 **Reference: PUB-MPI 1-10. Page 22 of the DCAT Report dated June 24, 2014**

Preamble: MPI has indicated that there are financial consequences to embracing the banks' interest rate forecasts used in its application, should they not be achieved. CAC observes that the bank forecasts have now be revised and generally reflect lower actual rates than those initially forecast for the first 2 quarters of 2014 and a reduction of forecast rates for the balance of 2014 and 2015. For example see http://www.bmonesbittburns.com/economics/current/summary.pdf for the most recent BMO forecast and http://research.cibcwm.com/economic_public/download/rates.pdf for the most recent CIBC forecast. CAC estimates that the changes in forecast GOC 10 year rates, for the 5 banks [excluding Global], for the 6 quarters 3Q 2014 to and including 4Q 2015 would average 40 basis points in reduced interest rates per quarter. Page 22 of the DCAT Report dated June 24, 2014 provides a table of interest rates and yields and a table reflecting the Claims Liability Discount rates.

Please update the table of interest rates and yields and a table reflecting the Claims Liability Discount rates to reflect the July August bank interest rate forecasts, and the most recent Global forecast.

RESPONSE:

Assumed Claims Liability Discount Rate with the updated bank forecasts

Fiscal Year End	Nominal	Real
2014/15	3.89%	1.85%
2015/16	4.35%	2.30%
2016/17	4.65%	2.60%
2017/18	4.85%	2.79%
2018/19	4.87%	2.81%

Government of Canada 10 Year Bond Rate August 2014 Forecast

		BMO NB	CIBC	Global	RBC	Scotia	TD	Average
2014	Q1							
	Q2	2.35%	2.24%	2.29%	2.24%	2.24%	2.24%	**2.25%**
	Q3	2.32%	2.40%	2.59%	2.55%	2.45%	2.40%	**2.48%**
	Q4	2.62%	2.70%	2.78%	3.00%	2.75%	2.65%	**2.78%**
2015	Q1	2.83%	2.85%	3.09%	3.20%	2.85%	2.85%	**2.97%**
	Q2	2.99%	3.10%	3.28%	3.35%	3.10%	3.00%	**3.17%**
	Q3	3.13%	3.30%	3.34%	3.55%	3.25%	3.20%	**3.30%**
	Q4	3.26%	3.45%	3.42%	3.85%	3.40%	3.35%	**3.46%**
2016	Q1			3.57%				**3.57%**
	Q2			3.68%				**3.68%**
	Q3			3.80%				**3.80%**
	Q4			3.95%				**3.95%**
2017	Q1			4.17%				**4.17%**
	Q2			4.23%				**4.23%**
	Q3			4.23%				**4.23%**
	Q4			4.23%				**4.23%**
2018	Q1			4.23%				**4.23%**
	Q2			4.23%				**4.23%**
	Q3			4.23%				**4.23%**
	Q4			4.23%				**4.23%**

CAC (MPI) 2-59

Reference: CAC MPI 1-142, Investment Income, Investment Policy Statement, PDF page 12, Investment Income II.4 page 29

Preamble: In CAC MPI 1-142, MPI indicates that the comparison of an income return and total returns "are not comparable". The Investment Policy Statement, PDF page 12, indicates that the benchmark for the Non-Marketable bonds is the DEX Provincial Total Return Bond Index. The accounting for MUSH bonds notes that they are held at book value and only interest payments flow through the profit and loss statement.

Please indicate why a total return index is the appropriate benchmark for an asset class held at book value.

RESPONSE:

The Corporation calculates and reports returns for MUSH bonds on two basis: book values and implied market values. Returns based on book values are not compared to the index. Only returns based on implied market values are used to compare performance to the DEX Provincial Total Return Bond Index.

CAC (MPI) 2-60 **Reference: CAC (MPI) 1-161, question (c)**

Preamble: "In view of the fact that the winter weather of 2013-14 was the worst (coldest) on record in a century, how does the claims loss compare to historical claims losses in terms of the high-loss scenario, i.e. is it a 1-in-100 year for claims losses?"

MPI Response: "Per page 36 of Volume II Claims Incurred, section CI.4, ultimate collision costs in 2013/14 are estimated to be $31.6 million (or +10.0%) over budget. Per the stochastic modeling results in the DCAT report (pages 74 and 75); the Corporation's modeling predicts that the 95th percentile of ultimate collision claims in a given year is approximately 10.6% higher than the 50th percentile. Therefore, the Corporation estimates that the observed collision experience would occur about 1 in every 20 years, or 5% of the time."

Please confirm that this high-claims outcome for 2013/14 lies within the risk tolerance level of 1-in-20 (5%) established for determination of the RSR.

RESPONSE:

Generally DCAT scenarios would test adverse events with a 1-in-20 to 1-in-100 probability of occurrence. However, only the most adverse scenarios are utilized in the determination of the RSR. An adverse scenario that only involves collision claims would not qualify as a top three risk for the Basic program.

CAC (MPI) 2-61 Reference: CAC (MPI) 1-162, question (a)

Preamble: "Please explain how this recommendation provides a role for the RSR to stabilize rates"

MPI Response: "By reacting quickly to an increase in projected claims costs, the Corporation can:

- Limit the impact to the RSR from inadequate rates
- Prevent relatively minor increases in rates from accumulating into more significant rate increases"

a) Please explain what is assumed about the correlation of claims costs from year to year in this response.

b) Please explain why minor fluctuations in claims costs from year to year would be expected to accumulate "into more significant rate increases."

RESPONSE:

a) The Corporation's stochastic modeling assumes that claims deviations around the best estimate forecast are independent from year-to-year. However, occasionally there are changes in historical trends that cause the Corporation to reassess the relevancy of the historical experience and the best estimate forecasting assumptions. As per CAC (MPI) 1-162 (b), "the Corporation would employ the same techniques as it does today to determine whether a significant increase in claims costs is a permanent increase or simply variation around the historical trend line". Recent examples where the Corporation has had to reassess its forecasting assumptions to reflect new trends include:

- Theft frequency and severity: theft rates increased significantly in 2000-2005, but then decreased significantly after the implementation of the

immobilizer program. The types and average age of vehicles being stolen also changed significantly during this period (i.e. severity)

- Collision total loss severity: recent experience has shown a significant increase in the total loss severity trend, which is not consistent with historical experience.
- Hail frequency: the recent 5+ years have seen a significant increase in minor hail experience, which is not consistent with the previous two decades of hail experience.
- Injury claim counts: injury claim count have remained stable over for nearly a decade despite increasing collision counts.

b) When a new trend emerges it often takes several years to recognize that historical patterns have changed. To the extent that the Corporation's forecasting assumptions lag behind the emerging trends there may be unintentional positive or negative biases in the forecasting of break-even rates. These lags can accumulate into larger rate changes depending on the amount of time it takes to incorporate the new trend into the forecast.

CAC (MPI) 2-62 **Reference:** **CAC (MPI) 1-167, question (a)**

Preamble: "Please explain what is assumed about the recovery (rebound) of equity values in years 3 and 4 in this scenario."

MPI Response: "The base scenario total equity return assumptions are used in years 3 and 4 of this scenario, which is why the report indicates that the results should not be used beyond the first two years. The Chief Actuary must determine the most significant plausible adverse events at all stages of the Corporation's forecast period."

a) Please confirm that the "base scenario total equity return assumptions" would be lower than the equity returns in years 3 and 4 after a severe equity decline in years 1 and 2.

b) Please explain the role of evidence in the Chief Actuary's determination of "the most significant plausible adverse events at all stage of the Corporation's forecast."

RESPONSE:

a) The tables on the bottom of page 29 and the top of page 30 in the DCAT report provide the requested information. The historical cumulative returns on the S&P/TSX for the $1^{st}/2.5^{th}/5^{th}$ percentile are higher for three year periods than for two year periods.

b) See PUB (MPI) 2-43.

CAC (MPI) 2-63 **Reference: CAC (MPI) 1-168, question (a)**

Preamble: "Please explain whether the correlations in this table are statistically significantly different from zero."

MPI Response: Correlation between Equity Returns and Interest Rate Movements

	2004 to Present	**1956 to Present**
1-Year	**0.28**	**-0.12**
2-Year	0.09	0.03
3-Year	**-0.23**	0.04
4-Year	-0.13	0.05

Correlation coefficients in **bold** are statistically significantly different from 0 with an assumed Type 1 error of 0.05.

Please confirm that, in the majority of cases in the above table, the correlation between equity returns and interest rate movements is not statistically significantly different from zero.

RESPONSE:

Confirmed.

CAC (MPI) 2-64 Reference: CAC (MPI) 1-171, question (a)

Preamble: **"Re: Cumulative Simulated Ultimate Losses % Deviation from Base Forecast – All Basic Coverages**

Please explain whether the decline in ultimate loss % in this table is indicative of a rebound or mean reversion pattern in claims losses that would at least partially rebuild the RSR in the absence of management action and the imposition of RSR rebuilding surcharges."

MPI Response: "Since the Corporation's claims cost simulation assumes independence in the variability of loss costs between accident years, there is a mean reversion pattern that emerges as more loss years are simulated. A simulation that assumes some positive correlation between loss years would produce a greater range of variability around the best estimate forecast.

The Corporation recognizes that there is variability around the best estimate claims forecast and that this variability can result in favourable or unfavourable outcomes purely by chance."

Please confirm that "a mean reversion pattern that emerges as more loss years are simulated" implies a reversion of retained earnings and the RSR to levels prior to the simulation of the adverse event.

RESPONSE:

The Corporation can confirm that this pattern would emerge based on the assumptions used in the stochastic model (i.e. the average deviation from the best estimate forecast would approach zero as more loss years are simulated). This assumption is built in to the Corporation's stochastic model and the DCAT analysis.