

October 23, 2019

2020 GENERAL RATE APPLICATION  
Undertaking #15 Transcript Page 1073**Undertaking #15**

MPI to provide an update to the response to PUB-MPI-1-14C to reflect the application as updated on October 4, 2019.

**RESPONSE:**

Based on updated forecasts, the Rate Stabilization Reserve (RSR) Investment Income for fiscal year 2020/21 is \$11.260 million. The Basic Vehicle Written Premiums for 2020/21 is \$1,107.372 million. As such, the ratio of RSR Investment Income to Basic Vehicle Written Premium is 1.02%. Applying the ratio of 1.02% as a cost offset to the required rates results in an overall required rate change of -1.6%.

Figure 1 shows the overall required rate change and the forecasted Minimum Capital Test (MCT) Ratio as at February 28, 2022 starting with the -1.6% rate change, and including the application of the Capital Management Plan.

**Figure 1 Overall Required Rate Change and Forecasted MCT Ratio**

Line No.	<b>Steps in the Capital Management Plan</b>	<b>Required Rate Change</b>	<b>MCT Ratio as at February 28, 2022</b>
1	<b>No Rate Change</b>	0.0%	58.7%
2	<b>Required Rate Change</b>	-1.6%	49.4%
3	<b>Capital Transfer from</b>		
4	<b>MPI's Extension Line of Business</b>	-1.6%	90.5%
5	<b>Required Rate with Capital Build</b>	-0.6%	97.6%

Based on Figure 1 above, the forecasted MCT ratio after the capital transfer from Extension is 90.5%. Based on PF-3 in the attached appendix, the target MCT ratio is 97.6%.

Given that the projected MCT ratio is lower than the target MCT ratio, a capital build of 1.0% is required, which results in a final overall required rate change of -0.6%.

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The Appendix 1 presents the supporting documents including:

- Basic and Extension Proformas based on an overall required rate change of -0.6%; and
- revised Figure RM-12 showing the Major Classification Required Rate Changes based on an overall required rate change of -0.6%.

**Appendix 1:**  
**PF-1 Statement of Operations based on -1.63%**  
**Basic Rate Change and Capital Build Provision of 1.05%**

**Multi-year - Statement of Operations**

Line No.	2020/21 Basic AAP break even rate change -1.63% and Capital Build Provision of 1.05% (C\$ 000s, rounding may affect totals)	For the Years Ended February,					
		2019A	2020P	2021F	2022F	2023F	2024F
1							
2	<b>BASIC</b>	<b>2018/19A</b>	<b>2019/20P</b>	<b>2020/21F</b>	<b>2021/22F</b>	<b>2022/23F</b>	<b>2023/24F</b>
3	Motor Vehicles	1,003,570	1,057,941	1,100,817	1,144,507	1,190,420	1,238,329
4	Drivers	66,959	70,267	72,280	74,110	75,948	77,445
5	Reinsurance Ceded	(12,502)	(14,888)	(14,433)	(14,722)	(15,016)	(15,316)
6	<b>Total Net Premiums Written</b>	<b>1,058,027</b>	<b>1,113,320</b>	<b>1,158,664</b>	<b>1,203,895</b>	<b>1,251,352</b>	<b>1,300,458</b>
7	<b>Net Premiums Earned</b>						
8	Motor Vehicles	980,770	1,034,264	1,083,910	1,124,280	1,169,164	1,216,150
9	Drivers	58,667	68,568	71,268	73,190	75,024	76,693
10	Reinsurance Ceded	(12,502)	(14,217)	(14,433)	(14,722)	(15,016)	(15,316)
11	<b>Total Net Premiums Earned</b>	<b>1,026,935</b>	<b>1,088,615</b>	<b>1,140,745</b>	<b>1,182,748</b>	<b>1,229,172</b>	<b>1,277,527</b>
12	Service Fees & Other Revenues	24,568	26,511	28,207	30,199	32,390	34,798
13	<b>Total Earned Revenues</b>	<b>1,051,503</b>	<b>1,115,126</b>	<b>1,168,952</b>	<b>1,212,947</b>	<b>1,261,562</b>	<b>1,312,325</b>
14	Claims Incurred	864,389	822,574	929,642	967,762	1,010,235	1,054,964
15	DPAC \ Premium Deficiency Adjustment	(12,983)	(17,610)	(6,392)	4,465	4,813	13,948
16	(a) Claims Incurred - Interest Rate Impact	40,852	61,473	16,134	18,948	16,303	14,792
17	<b>Total Claims Incurred</b>	<b>892,258</b>	<b>866,437</b>	<b>939,384</b>	<b>991,175</b>	<b>1,031,351</b>	<b>1,083,704</b>
18	Claims Expense	126,871	134,257	139,429	139,559	139,072	148,880
19	Road Safety/Loss Prevention	11,538	12,329	13,471	13,429	13,725	13,963
20	<b>Total Claims Costs</b>	<b>1,030,667</b>	<b>1,013,023</b>	<b>1,092,284</b>	<b>1,144,163</b>	<b>1,184,148</b>	<b>1,246,547</b>
21	<b>Expenses</b>						
22	Operating	76,124	72,200	74,197	75,512	77,050	82,311
23	Commissions	40,233	42,454	44,262	45,969	47,731	49,562
24	Premium Taxes	31,183	33,085	34,655	35,924	37,326	38,785
25	Regulatory/Appeal	4,315	4,671	5,327	5,335	5,424	5,516
26	<b>Total Expenses</b>	<b>151,855</b>	<b>152,410</b>	<b>158,441</b>	<b>162,740</b>	<b>167,531</b>	<b>176,174</b>
27	<b>Underwriting Income (Loss)</b>	<b>(131,019)</b>	<b>(50,307)</b>	<b>(81,773)</b>	<b>(93,956)</b>	<b>(90,117)</b>	<b>(110,396)</b>
28	<b>Investment Income</b>	194,333	78,228	71,392	76,492	72,389	73,190
29	(b) Investment Income - Interest Rate Impact	14,178	80,377	(93)	(125)	(163)	(111)
30	<b>Net Investment Income</b>	<b>208,511</b>	<b>158,605</b>	<b>71,299</b>	<b>76,367</b>	<b>72,226</b>	<b>73,079</b>
31	<b>Gain (Loss) on Sale of Property</b>	<b>1,345</b>					
32	<b>Net Income (Loss)</b>	<b>78,837</b>	<b>108,298</b>	<b>(10,474)</b>	<b>(17,589)</b>	<b>(17,891)</b>	<b>(37,317)</b>
33	Total net Impact due to interest rate change (b) - (a)	(26,674)	18,904	(16,227)	(19,073)	(16,466)	(14,903)

**Appendix 1:**  
**PF-2 Statement of Financial Position based on -1.63%**  
**Basic Rate Change and Capital Build Provision of 1.05%**

**Multi-year - Statement of Financial Position**

Line No.	<i>2020/21 Basic AAP break even rate change -1.63% and Capital Build Provision of 1.05%</i> <i>(C\$ 000s, rounding may affect totals)</i>	<i>For the Years Ended February,</i>					
		<b>2019A</b>	<b>2020P</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
1							
2	<b>BASIC</b>	<b>2018/19A</b>	<b>2019/20P</b>	<b>2020/21F</b>	<b>2021/22F</b>	<b>2022/23F</b>	<b>2023/24F</b>
3	<b>Assets</b>						
4	Cash and cash equivalents	161,944	100,000	100,000	100,000	100,000	100,000
5	Investments	2,426,047	2,871,937	3,014,361	3,150,166	3,299,566	3,455,997
6	Investment property	41,892	5,521	5,174	5,038	5,681	6,560
7	Due from other insurance companies	1,495	-	-	-	-	-
8	Accounts receivable	422,793	368,893	382,756	396,688	411,097	426,013
9	Deferred policy acquisition costs	6,063	20,368	27,819	24,620	21,138	8,579
10	Reinsurers' share of unpaid claims	8,463	-	-	-	-	-
11	Property and equipment	88,983	92,904	95,508	96,594	98,819	102,795
12	Deferred development costs	45,926	47,392	64,376	81,282	88,409	81,432
13		<b>3,203,606</b>	<b>3,507,015</b>	<b>3,689,994</b>	<b>3,854,388</b>	<b>4,024,710</b>	<b>4,181,376</b>
14	<b>Liabilities</b>						
15	Due to other insurance companies	2,066	1,991	1,991	1,991	1,991	1,991
16	Accounts payable and accrued liabilities	70,282	41,259	41,594	42,006	42,211	44,902
17	Financing lease obligation	3,081	2,843	2,743	2,634	2,518	2,401
18	Unearned premiums and fees	543,416	569,867	591,406	616,469	642,886	670,401
19	Provision for employee current benefits	17,098	17,824	18,500	19,184	19,911	20,648
20	Provision for employee future benefits	342,046	415,381	429,194	442,927	456,662	470,822
21	Provision for unpaid claims	1,975,925	2,067,800	2,179,248	2,274,997	2,367,196	2,457,732
22		<b>2,953,914</b>	<b>3,116,965</b>	<b>3,264,676</b>	<b>3,400,208</b>	<b>3,533,375</b>	<b>3,668,897</b>
23	<b>Equity</b>						
24	Retained Earnings	309,812	493,298	523,098	549,176	579,282	589,586
25	Accumulated Other Comprehensive Income	(60,120)	(103,248)	(97,778)	(94,996)	(87,947)	(77,106)
26	<b>Total Equity</b>	<b>249,692</b>	<b>390,050</b>	<b>425,320</b>	<b>454,180</b>	<b>491,335</b>	<b>512,480</b>
27	<b>Total Liabilities &amp; Equity</b>	<b>3,203,606</b>	<b>3,507,015</b>	<b>3,689,996</b>	<b>3,854,388</b>	<b>4,024,710</b>	<b>4,181,377</b>

**Appendix 1:  
PF-3 Statement of Changes in Equity based on -1.63%  
Basic Rate Change and Capital Build Provision of 1.05%**

**Multi-year - Statement of Changes in Equity**

Line No.		For the Years Ended February,					
2020/21 Basic AAP break even rate change -1.63% and Capital Build Provision of 1.05%		2019A	2020P	2021F	2022F	2023F	2024F
(C\$ 000s, rounding may affect totals)		2018/19A	2019/20P	2020/21F	2021/22F	2022/23F	2023/24F
1							
2	<b>BASIC</b>						
3	<b>Total Equity</b>						
4	<b>Retained Earnings</b>						
5	Beginning Balance	170,975	309,812	493,298	523,098	549,176	579,282
6	Net Income (Loss) from annual operations	78,837	108,298	(10,473)	(17,590)	(17,890)	(37,318)
7	Transfer from Extension Retained Earnings	60,000	75,188	40,272	43,667	47,996	47,622
8	<b>Total Retained Earnings</b>	<b>309,812</b>	<b>493,298</b>	<b>523,098</b>	<b>549,176</b>	<b>579,282</b>	<b>589,586</b>
9	<b>Total Accumulated Other Comprehensive Income</b>						
10	Beginning Balance	39,870	(60,120)	(103,248)	(97,778)	(94,996)	(87,947)
11	Other Comprehensive Income for the Year	(99,990)	(43,127)	5,469	2,783	7,049	10,841
12	<b>Total Accumulated Other Comprehensive Income</b>	<b>(60,120)</b>	<b>(103,248)</b>	<b>(97,778)</b>	<b>(94,996)</b>	<b>(87,947)</b>	<b>(77,106)</b>
13	<b>Total Equity Balance</b>	<b>249,692</b>	<b>390,051</b>	<b>425,320</b>	<b>454,180</b>	<b>491,335</b>	<b>512,480</b>
14	<b>MINIMUM CAPITAL TEST (C\$ 000s)</b>						
15	Total Equity Balance	249,692	390,051	425,320	454,180	491,335	512,480
16	Less: Assets Requiring 100% Capital	45,926	47,392	64,376	81,282	88,409	81,432
17	Capital Available	203,766	342,659	360,944	372,898	402,926	431,048
18	Minimum Capital Required (100% MCT)	395,393	356,865	372,768	381,977	410,182	429,618
19	<b>MCT Ratio % (Line 17) / (Line 18)</b>	<b>51.5%</b>	<b>96.0%</b>	<b>96.8%</b>	<b>97.6%</b>	<b>98.2%</b>	<b>100.3%</b>

**Appendix 1:  
EPF-1 Extension Statement of Operations based on -1.63%  
Basic Rate Change and Capital Build Provision of 1.05%**

**Multi-year - Statement of Operations**

Line No.		2020/21 Basic AAP break even rate change -1.63% and Capital Build Provision of 1.05%					
		(C\$ 000s, rounding may affect totals)					
		2019A	2020P	2021F	2022F	2023F	2024F
1							
2	<b>EXTENSION</b>	<b>2018/19A</b>	<b>2019/20P</b>	<b>2020/21F</b>	<b>2021/22F</b>	<b>2022/23F</b>	<b>2023/24F</b>
3	Motor Vehicles	162,861	156,127	162,147	166,626	171,389	176,363
4	Reinsurance Ceded	(1,567)	(2,029)	(2,035)	(2,076)	(2,117)	(2,159)
5	<b>Total Net Premiums Written</b>	<b>161,294</b>	<b>154,098</b>	<b>160,112</b>	<b>164,550</b>	<b>169,272</b>	<b>174,204</b>
6	<b>Net Premiums Earned</b>						
7	Motor Vehicles	160,848	159,360	159,280	164,493	169,121	173,994
8	Reinsurance Ceded	(1,567)	(1,911)	(2,035)	(2,076)	(2,117)	(2,159)
9	<b>Total Net Premiums Earned</b>	<b>159,281</b>	<b>157,449</b>	<b>157,245</b>	<b>162,417</b>	<b>167,004</b>	<b>171,835</b>
10	Service Fees & Other Revenues	11,752	12,168	12,847	13,487	14,179	14,929
11	<b>Total Earned Revenues</b>	<b>171,033</b>	<b>169,617</b>	<b>170,092</b>	<b>175,904</b>	<b>181,183</b>	<b>186,764</b>
12	<b>Net Claims Incurred</b>	65,685	60,659	69,788	71,222	72,438	73,750
13	(a) Claims Incurred - Interest Rate Impact	-	146	(7)	1	-	(1)
14	<b>Total Claims Incurred</b>	<b>65,685</b>	<b>60,805</b>	<b>69,781</b>	<b>71,223</b>	<b>72,438</b>	<b>73,749</b>
15	Claims Expense	10,491	11,288	10,740	10,636	10,191	10,878
16	Road Safety/Loss Prevention	908	1,038	1,034	1,018	997	1,001
17	<b>Total Claims Costs</b>	<b>77,083</b>	<b>73,131</b>	<b>81,555</b>	<b>82,877</b>	<b>83,626</b>	<b>85,628</b>
18	<b>Expenses</b>						
19	Operating	9,431	9,304	9,137	9,294	9,290	9,729
20	Commissions	35,256	34,959	34,745	35,912	36,925	37,992
21	Premium Taxes	4,825	4,781	4,778	4,935	5,074	5,220
22	Regulatory/Appeal	8	12	11	11	16	22
23	<b>Total Expenses</b>	<b>49,520</b>	<b>49,056</b>	<b>48,671</b>	<b>50,152</b>	<b>51,305</b>	<b>52,963</b>
24	<b>Underwriting Income (Loss)</b>	<b>44,431</b>	<b>47,430</b>	<b>39,866</b>	<b>42,875</b>	<b>46,252</b>	<b>48,173</b>
25	<b>Investment Income</b>	11,349	5,331	3,286	3,853	3,917	3,919
26	(b) Investment Income - Interest Rate Impact	828	2,955	(45)	(50)	(55)	(55)
27	<b>Net Investment Income</b>	<b>12,177</b>	<b>8,286</b>	<b>3,241</b>	<b>3,803</b>	<b>3,862</b>	<b>3,864</b>
28	<b>Gain (Loss) on Sale of Property</b>	<b>115</b>					
29	<b>Net Income (Loss) from Operations</b>	<b>56,721</b>	<b>55,716</b>	<b>43,107</b>	<b>46,678</b>	<b>50,114</b>	<b>52,037</b>
30	Total net Impact due to interest rate change (b) - (a)	828	2,809	(38)	(51)	(55)	(54)

**Appendix 1:  
EPF-3 Extension Statement of Changes in Equity based on -1.63%  
Basic Rate Change and Capital Build Provision of 1.05%**

**Multi-year - Statement of Changes in Equity**

<i>2020/21 Basic AAP break even rate change -1.63% and Capital Build Provision of 1.05%</i>							
<i>(C\$ 000s, rounding may affect totals)</i>							
Line No.		2019A	2020P	2021F	2022F	2023F	2024F
1							
2	<b>EXTENSION</b>	<b>2018/19A</b>	<b>2019/20P</b>	<b>2020/21F</b>	<b>2021/22F</b>	<b>2022/23F</b>	<b>2023/24F</b>
3	<b>Total Equity</b>						
4	<b>Retained Earnings</b>						
5	Beginning Balance	102,492	99,213	79,741	82,575	85,585	87,704
6	Net Income (Loss) from annual operations	56,721	55,716	43,107	46,677	50,115	52,036
7	Transfer (to) / from Basic Retained Earnings	(60,000)	(75,188)	(40,272)	(43,667)	(47,996)	(47,622)
8	<b>Total Retained Earnings</b>	<b>99,213</b>	<b>79,741</b>	<b>82,576</b>	<b>85,585</b>	<b>87,704</b>	<b>92,118</b>
9	<b>Total Accumulated Other Comprehensive Income</b>						
10	Beginning Balance	1,097	(4,511)	(9,698)	(8,984)	(8,164)	(7,194)
11	Other Comprehensive Income	(5,608)	(5,187)	713	821	970	1,256
12	<b>Total Accumulated Other Comprehensive Income</b>	<b>(4,511)</b>	<b>(9,698)</b>	<b>(8,985)</b>	<b>(8,163)</b>	<b>(7,194)</b>	<b>(5,938)</b>
13	<b>Total Equity Balance</b>	<b>94,702</b>	<b>70,043</b>	<b>73,591</b>	<b>77,421</b>	<b>80,509</b>	<b>86,179</b>
14	<b>MCT Ratio (%)</b>	<b>317.4%</b>	<b>200.0%</b>	<b>200.0%</b>	<b>200.0%</b>	<b>200.0%</b>	<b>200.0%</b>

**Appendix 1:  
Rating Year 2020/21 Major Classification Required Rate Changes  
Overall Required Rate Change (Including Capital Build Provision) of -0.6%**

Line No.	Coverage	Overall	Private Pass	Comm	Public	Motor-Cycle	Trailer	ORV
1	20/21 Units	1,210,000	835,300	47,900	13,200	18,200	219,200	76,200
2	Claims	733.78	966.46	664.42	1,787.88	704.79	54.29	5.82
3	Claims Expense	116.50	153.44	105.49	283.85	111.89	8.62	0.92
4	Road Safety	11.11	14.70	14.70	14.70	14.70	0.00	0.00
5	Operating Expense	62.34	82.48	82.48	82.48	82.48	0.00	0.00
6	Regulatory/Appeal	4.41	5.83	5.83	5.83	5.83	0.00	0.00
7	Commission: Vehicle	30.12	39.61	27.56	72.06	28.10	2.56	0.23
8	Prem Tax: Vehicle	27.89	36.68	25.52	66.73	26.02	2.37	0.21
9	Comm & Prem Tax: Driver	3.77	4.99	4.99	4.99	4.99	0.00	0.00
10	Commission Flat Fee	6.09	8.05	8.05	8.05	8.05	0.00	0.00
11	Reins: Casualty	1.07	1.41	1.41	1.41	1.41	0.00	0.00
12	Reins: Catastrophe	10.98	11.91	11.91	11.91	0.00	11.91	0.00
13	Fleet Rebates	14.14	19.08	19.08	19.08	0.00	0.00	0.00
14	Anti-Theft Discount	1.75	2.53	0.00	0.00	0.00	0.00	0.00
15	Driver Prem	60.48	80.01	80.01	80.01	80.01	0.00	0.00
16	Service Fees	24.25	32.08	32.08	32.08	32.08	0.00	0.00
17	RSR Investment Income	9.48	12.47	8.68	22.69	8.85	0.81	0.07
18	Req Rate (Raw)	929.73	1,222.60	850.67	2,224.19	867.32	78.94	7.11
19	Req Rate (Bal)	918.30	1,207.57	840.21	2,196.85	856.66	77.97	7.02
20	19/20 Average Rate	887.37	1,160.49	805.36	1,918.04	805.72	79.79	8.07
21	Major Class Drift	5.2%	6.3%	4.7%	-0.1%	0.6%	4.4%	0.0%
22	20/21 Average Rate							
23	without Rate Change	933.56	1,233.34	842.95	1,916.56	810.80	83.30	8.07
24	Full Cred Req Change	-1.6%	-2.1%	-0.3%	14.6%	5.7%	-6.4%	-12.9%
25	Applied for Change	-0.6%	-1.0%	0.7%	15.9%	6.8%	-5.4%	-12.0%
26	Credibility		99.3%	88.9%	68.8%	75.2%	97.3%	92.7%
27	Cred Wtd Change		-1.0%	0.6%	10.7%	5.0%	-5.3%	-11.2%
28	Cred Wtd Req Rate		1,220.55	847.97	2,121.97	851.03	78.92	7.17
29	Cred Wtd Req Rate (Bal)	928.14	1,222.25	849.15	2,124.93	852.21	79.03	7.18
30	Cred Wtd Change (Bal)		-0.9%	0.7%	10.9%	5.1%	-5.1%	-11.0%