

October 29, 2020

Undertaking #10

MPI to advise as to the explanation for the variation from the June update (PUB (MPI) 2-11(d), Figure 4, line 35) in the interest rate impact to the October 9th update, MPI Exhibit #27 PF-1 line 33.

RESPONSE:

MPI understood the request under PUB (MPI) 2-11 to be a sensitivity test of the interest rate forecast including spreads changes on the AAP rate indication and not as an update to the 2020/21 projected financial results. As such, MPI did not update actual 2020/21 interest rate impacts on investment assets. The impact of updating 2020/21 actual interest rates on investments assets results in a favourable impact of \$34.7 million to investment income. Shown below are Figures 1-7 which represent updated figures from previously filed PUB (MPI) 2-11 to reflect the revised results. Figure 8 illustrates the explanation for the variance from the revised June update (PUB (MPI) 2-11) to the October 9th update.

Figure 1 below shows that the new money yield has remained unchanged from PUB (MPI) 2-11, Figure 2.

Figure 1 New Money Yield Calculation - June 30, 2020 Marketable Bond Spreads

Line No.	Provincial Bond Exposure (%)	Corporate Bond Exposure (%)	Provincial Bond YTM	Corporate Bond YTM	New Money Yield
1	73.42%	26.58%	1.61%	2.82%	1.93%

Figure 2 shows the Overall Required Rate Change and Forecasted MCT Ratio. Given, that the new money yield is unchanged, the AAP break-even rate indication remains unchanged at -3.81%. As a result of the changes as mentioned above, the capital release changes from -2.2% as filed under PUB (MPI) 2-11, Figure 3 to -4.32%. Under the revised scenario results from PUB (MPI) 2-11, the combined rate change to Basic would be -8.13%.

October 29, 2020

**2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**

Figure 2 Overall Required Rate Change and Forecasted MCT Ratio

Line No.	Scenario	New Money Yield	AAP Breakeven Rate Indication	Capital Build / (Release) Provision	MCT % After AAP Breakeven Rate Indication			MCT % After AAP Breakeven Rate Indication and Transfer from Extension		MCT % After AAP Breakeven Rate Indication and Transfer from Extension and Capital Build / Release	
					20/21	21/22	22/23	21/22	22/23	21/22	22/23
1	June 30 Interest Rates	1.93%	-3.81%	-4.32%	101.3%	101.6%	102.8%	107.0%	115.1%	101.8%	100.4%

Figures 3-7 are updated pro formas results supporting the overall Basic rate change of -8.13%.

October 29, 2020

2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**Figure 3 PF-1 Statement of Operations based on -8.1% Basic Overall Rate Change****Multi-year - Statement of Operations**

Line No.	2021 GRA Base with June 30, 2020 Naïve Interest Rate and Spread Forecast with RI and CMP - revised (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2020A	2021BF	2022F	2023F	2024F	2025F
1							
2	BASIC						
3	Motor Vehicles	1,055,113	1,079,495	1,033,064	1,070,591	1,109,635	1,149,541
4	Drivers	66,411	67,146	68,094	69,212	70,412	71,588
5	Reinsurance Ceded	(14,099)	(13,615)	(13,887)	(14,166)	(14,447)	(14,737)
6	Total Net Premiums Written	1,107,425	1,133,026	1,087,271	1,125,637	1,165,600	1,206,392
7	Net Premiums Earned						
8	Motor Vehicles	1,036,651	1,067,604	1,055,708	1,052,290	1,090,593	1,130,079
9	Drivers	66,733	66,781	67,623	68,656	69,816	71,004
10	Reinsurance Ceded	(14,099)	(13,615)	(13,888)	(14,165)	(14,448)	(14,738)
11	Total Net Premiums Earned	1,089,285	1,120,770	1,109,443	1,106,781	1,145,961	1,186,345
12	Service Fees & Other Revenues	27,161	28,209	27,670	29,244	30,941	32,754
13	Total Earned Revenues	1,116,446	1,148,979	1,137,113	1,136,025	1,176,902	1,219,099
14	Claims Incurred	787,799	820,094	903,115	919,440	952,693	984,991
15	DPAC \ Premium Deficiency Adjustment	(17,406)	(3,633)	1,138	(2,318)	4,398	14,086
16	(a) Claims Incurred - Interest Rate Impact	(8,938)	137,189	2,886	2,766	2,503	2,390
17	Total Claims Incurred	761,455	953,650	907,139	919,888	959,594	1,001,467
18	Claims Expense	132,028	143,490	143,746	147,298	154,654	153,994
19	Road Safety/Loss Prevention	12,030	11,234	13,683	13,553	13,603	13,379
20	Total Claims Costs	905,513	1,108,374	1,064,568	1,080,739	1,127,851	1,168,840
21	Expenses						
22	Operating	69,859	71,865	72,287	76,144	80,118	80,092
23	Commissions	42,332	43,823	43,783	43,704	45,217	46,777
24	Premium Taxes	33,102	32,292	33,700	33,628	34,812	36,032
25	Regulatory/Appeal	4,647	5,120	5,161	5,201	5,294	5,393
26	Total Expenses	149,940	153,100	154,931	158,677	165,441	168,294
27	Underwriting Income (Loss)	60,993	(112,495)	(82,386)	(103,391)	(116,390)	(118,035)
28	Investment Income	54,159	86,614	78,193	78,932	76,618	67,116
29	(b) Investment Income - Interest Rate Impact	5,455	121,876	517	147	91	278
30	Net Investment Income	59,614	208,490	78,710	79,079	76,709	67,394
31	Gain (Loss) on Sale of Property	-	-	5,997	-	-	-
32	Net Income (Loss) from Annual Operations	120,607	95,995	2,321	(24,312)	(39,681)	(50,641)
33	Premium Rebate	-	(58,000)	-	-	-	-
34	Net Income (Loss) after Premium Rebate	120,607	37,995	2,321	(24,312)	(39,681)	(50,641)
35	Total net Impact due to interest rate change (b) - (a)	14,393	(15,313)	(2,369)	(2,619)	(2,412)	(2,112)

October 29, 2020

2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**Figure 4 PF-2 Statement of Financial Position based on -8.1% Basic Overall Rate Change****Multi-year - Statement of Financial Position**

Line No.	2021 GRA Base with June 30, 2020 Naïve Interest Rate and Spread Forecast with RI and CMP - revised (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2020A	2021BF	2022F	2023F	2024F	2025F
1							
2	BASIC						
3	Assets						
4	Cash and cash equivalents	186,762	54,243	50,961	50,691	52,140	53,656
5	Investments	2,648,873	3,099,119	3,193,217	3,289,207	3,396,346	3,507,372
6	Investment property	20,969	20,910	20,735	20,324	20,327	20,044
7	Due from other insurance companies	381	-	-	-	-	-
8	Accounts receivable	406,844	413,919	407,702	421,160	435,213	449,607
9	Prepaid expenses	-	-	-	-	-	-
10	Deferred policy acquisition costs	25,582	26,096	25,573	29,112	25,983	13,194
11	Reinsurers' share of unearned premiums	-	-	(1)	-	(1)	(2)
12	Reinsurers' share of unpaid claims	5,072	-	-	-	-	-
13	Property and equipment	88,465	93,323	96,761	99,203	97,064	91,133
14	Deferred development costs	34,964	39,658	61,961	70,024	67,693	58,515
15	Total Assets	3,417,912	3,747,268	3,856,909	3,979,721	4,094,765	4,193,519
16	Liabilities						
17	Due to other insurance companies	595	545	545	545	545	545
18	Accounts payable and accrued liabilities	50,053	70,311	71,241	73,423	78,228	78,137
19	Financing lease obligation	5,475	5,368	5,253	5,131	5,008	4,885
20	Unearned premiums and fees	569,706	582,458	561,833	582,355	603,783	625,757
21	Provision for employee current benefits	18,213	18,903	19,600	20,341	21,092	21,852
22	Provision for employee future benefits	336,307	407,682	419,938	432,077	444,308	456,940
23	Provision for unpaid claims	2,031,336	2,198,589	2,281,798	2,353,583	2,426,313	2,495,329
24	Total Liabilities	3,011,685	3,283,856	3,360,208	3,467,455	3,579,277	3,683,445
25	Equity						
26	Retained Earnings	440,522	537,375	564,748	575,413	573,868	563,752
27	Accumulated Other Comprehensive Income	(34,296)	(73,963)	(68,048)	(63,147)	(58,381)	(53,675)
28	Total Equity	406,226	463,412	496,700	512,266	515,487	510,077
29	Total Liabilities & Equity	3,417,911	3,747,268	3,856,908	3,979,721	4,094,764	4,193,522

October 29, 2020

**2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**

Figure 5 PF-3 Statement of Changes in Equity based on -8.1% Basic Overall Rate Change

Multi-year - Statement of Changes in Equity

Line No.	2021 GRA Base with June 30, 2020 Naïve Interest Rate and Spread Forecast with RI and CMP - revised (C\$ 000s, except where noted)	For the Years Ended March 31,					
		2020A	2021BF	2022F	2023F	2024F	2025F
2	BASIC						
3	Total Equity						
4	Retained Earnings						
5	Beginning Balance	319,914	440,522	537,375	564,748	575,413	573,868
6	Net Income (Loss) from annual operations	120,607	95,996	2,321	(24,312)	(39,682)	(50,641)
7	Premium Rebate	-	(58,000)	-	-	-	-
8	Transfer (to) / from Non-Basic Retained Earnings	-	58,857	25,053	34,977	38,137	40,525
9	Total Retained Earnings	440,522	537,375	564,748	575,413	573,868	563,752
10	Total Accumulated Other Comprehensive Income						
11	Beginning Balance	(48,956)	(34,296)	(73,963)	(68,048)	(63,147)	(58,381)
12	Other Comprehensive Income on Available for Sale Assets	(1,857)	20,081	5,915	4,901	4,766	4,705
13	Remeasurement of Employee Future Benefits	16,517	(59,748)	-	-	-	-
14	Total Accumulated Other Comprehensive Income	(34,296)	(73,963)	(68,048)	(63,147)	(58,381)	(53,675)
15	Total Equity Balance	406,226	463,412	496,700	512,266	515,488	510,077
16	MINIMUM CAPITAL TEST (C\$ 000s)						
17	Total Equity Balance	406,226	463,412	496,700	512,266	515,488	510,077
18	Less: Assets Requiring 100% Capital	34,964	39,658	61,961	70,024	67,693	58,515
19	Capital Available	371,262	423,754	434,739	442,242	447,795	451,562
20	Minimum Capital Required (100% MCT)	350,820	418,511	427,149	440,413	455,600	471,221
21	MCT Ratio % (Line 17) / (Line 18)	105.8%	101.3%	101.8%	100.4%	98.3%	95.8%

October 29, 2020

2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**Figure 6 EPF-1 Extension Statement of Operations based on -8.1% Basic Overall Rate Change****Multi-year - Statement of Operations**

Line No.	2021 GRA Base with June 30, 2020 Naïve Interest Rate and Spread Forecast with RI and CMP. - revised (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2020A	2021BF	2022F	2023F	2024F	2025F
1							
2	EXTENSION						
3	Motor Vehicles	155,063	158,100	180,316	186,381	192,868	199,666
4	Reinsurance Ceded	(1,903)	(1,778)	(1,814)	(1,850)	(1,887)	(1,924)
5	Total Net Premiums Written	153,160	156,322	178,502	184,531	190,981	197,742
6	Net Premiums Earned						
7	Motor Vehicles	157,842	156,644	169,669	183,474	189,759	196,408
8	Reinsurance Ceded	(1,903)	(1,778)	(1,814)	(1,850)	(1,887)	(1,925)
9	Total Net Premiums Earned	155,939	154,866	167,855	181,624	187,872	194,483
10	Service Fees & Other Revenues	12,461	12,065	12,939	13,540	14,182	14,873
11	Total Earned Revenues	168,400	166,931	180,794	195,164	202,054	209,356
12	Net Claims Incurred	69,516	65,135	82,565	96,594	97,386	98,711
13	(a) Claims Incurred - Interest Rate Impact	-	128	(177)	-	-	-
14	Total Claims Incurred	69,516	65,263	82,388	96,594	97,386	98,711
15	Claims Expense	11,100	11,745	11,374	11,870	13,572	13,922
16	Road Safety/Loss Prevention	1,013	919	1,081	1,090	1,204	1,220
17	Total Claims Costs	81,629	77,927	94,843	109,554	112,162	113,853
18	Expenses						
19	Operating	8,910	7,849	8,015	8,667	9,526	9,753
20	Commissions	34,788	35,060	37,094	40,329	41,709	43,169
21	Premium Taxes	4,735	3,139	5,090	5,504	5,693	5,892
22	Regulatory/Appeal	12	12	11	12	17	23
23	Total Expenses	48,445	46,060	50,210	54,512	56,945	58,837
24	Underwriting Income (Loss)	38,326	42,944	35,741	31,098	32,947	36,666
25	Investment Income	(723)	8,330	5,493	6,668	7,012	7,508
26	(b) Investment Income - Interest Rate Impact	280	1,269	81	(26)	(32)	(34)
27	Net Investment Income	(443)	9,599	5,574	6,642	6,980	7,474
28	Gain (Loss) on Sale of Property	-	-	516	-	-	-
29	Net Income (Loss) from Operations	37,883	52,543	41,831	37,740	39,927	44,140
30	Premium Rebate	-	(52,000)	-	-	-	-
31	Net Income (Loss) after premium rebate	37,883	543	41,831	37,739	39,928	44,141
32	Total net Impact due to interest rate change (b) - (a)	280	1,141	258	(26)	(32)	(34)

October 29, 2020

**2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**

Figure 7 EPF-3 Extension Statement of Changes in Equity based on -8.1% Basic Overall Rate Change

Multi-year - Statement of Changes in Equity

Line No.	2021 GRA Base with June 30, 2020 Naïve Interest Rate and Spread Forecast with RI and CMP. - revised (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2020A	2021BF	2022F	2023F	2024F	2025F
2	EXTENSION						
3	Retained Earnings						
4	Beginning Balance	104,983	142,866	84,551	101,329	104,092	105,883
5	Net Income / (Loss)	37,883	52,543	41,831	37,739	39,928	44,141
6	Premium Rebate	-	(52,000)	-	-	-	-
7	Transfer (to) / from Basic Retained Earnings	-	(58,857)	(25,053)	(34,977)	(38,137)	(40,525)
8	Total Retained Earnings	142,866	84,552	101,329	104,091	105,883	109,499
9	Total Accumulated Other Comprehensive Income						
10	Beginning Balance	(3,966)	(2,367)	(5,920)	(4,414)	(2,893)	(1,552)
11	Other Comprehensive Income on Available for Sales Assets	178	1,625	1,506	1,521	1,341	1,209
12	Remeasurement of Employee Future Benefits	1,421	(5,178)	-	-	-	-
13	Total Accumulated Other Comprehensive Income	(2,367)	(5,920)	(4,414)	(2,893)	(1,552)	(343)
14	Total Equity Balance	140,499	78,632	96,915	101,198	104,331	109,156
15	MINIMUM CAPITAL TEST (C\$ 000s)						
16	Total Equity Balance	140,499	78,632	96,915	101,198	104,331	109,156
17	Less: Assets Requiring 100% Capital	2,979	3,432	5,402	6,127	5,953	5,151
18	Capital Available	137,520	75,200	91,513	95,071	98,378	104,005
19	Minimum Capital Required (100% MCT)	42,340	37,600	45,757	47,536	49,189	52,005
20	MCT Ratio % (Line 17) / (Line 18)	324.8%	200.0%	200.0%	200.0%	200.0%	200.0%

Figure 8 represents the variance for the changes in interest rate impacts comparing the revised PUB (MPI) 2-11 update to the October 9, 2020 rate update.

Figure 8 Net Interest Rate Impact Comparison - Revised PUB 2-11 vs October 9, 2020 update

Line No.	(C\$ 000s)	PUB 2-11	Oct 9, 2020	Inc (dec)
		2021 GRA 2020-21P	2021 GRA 2020-21P	
2	(a) Claims Incurred - Interest rate impact	137,189	157,903	20,714
3	(b) Investment Income - Interest rate impact	121,876	124,523	2,647
4	Total net impact due to interest rate change (b) - (a)	(15,313)	(33,380)	(18,067)

The change in net interest rate impacts from the revised PUB (MPI) 2-11 update to the October 9, 2020 rate update is mainly attributable to the removal of a claims discount

October 29, 2020

**2021 GENERAL RATE APPLICATION
Undertaking #10 Transcript Page 461**

rate floor. The removal of the floor resulted in an unfavourable change to claims incurred by approximately \$21.9 million.