Capital Management Plan & 5 Year Forecast

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2023 General Rate Application

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Agenda

1. **Capital Management Plan (CMP)/ Rate Stabilization Reserve (RSR)**
   - Purpose of the RSR
   - Current CMP
   - Proposed Changes
2. **Five Year Forecast**
   - Forecasted Revenue
   - Forecasted MCT & Potential Rebate

Capital Management Plan

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Purpose of the Rate Stabilization Reserve

“To protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors”

Accepted Actuarial Pricing is based on best estimate of the corresponding claim and expense costs over the rating year. Unexpected adverse events can erode the capital base. Examples of unexpected adverse events:

- High inflation
- Reserve deficiencies on older claims
- Natural catastrophe

Current Capital Management Plan

- CMP is a transparent policy around maintaining a capital reserve target
- Industry standard of the Minimum Capital Test (MCT) with a minimum ratio of 100%
- MPI envisioned RSR to hover around 100%
- Capital Build/Release are explicit surcharges/discounts applied on top of the rates determined through Accepted Actuarial Practice (AAP)
- RSR can grow over time with investment income and extension transfers
- RSR can drop over time due to large capital events such as market activity, inflation, hailstorms, inadequate reserves set aside for past claims

Current Capital Management Plan (cont'd)

Steps for Application of Current CMP

- **Capital Transfer from Extension Line**
  - Transfer from Extension to Basic if excess capital is *forecasted* for fiscal year end
  - Target of 200% MCT ratio
- **MCT Ratio for Basic Line of Business for fiscal year end**
  - Target of 100% MCT ratio is set by *Reserves Regulation (76/2019)*
- **Capital Build Provision if below target**
  - Increase required to restore Basic MCT ratio to 100% over a period of five years
  - Capped at +5% including AAP rate indication
- **Capital Release Provision**
  - Release triggered when Basic MCT ratio is forecasted to exceed 100% at the end of the fiscal year over a period of no more than 3 years

Proposed Changes to CMP

Current	Proposed
Current single target of 100% MCT	Target range from 100% -120% MCT
Capital Build or Capital Release	Capital Build is unchanged, but Capital Release replaced by a Capital Rebate to a ratio not less than 100%
Capital Release is on forecasted fiscal year end results	Capital Rebate is on audited actual year end results

Proposed Change from 100% MCT to a Range

Why a range?

1. A point estimate target is difficult due to volatility in the RSR due to investment results, insurance results, inflation, natural catastrophes and other factors.
2. An upper threshold will provide more stability as MPI won't be in constant build/release cycles.

Why 120% for upper threshold?

1. Minimum amount to issue an average cheque of $100 for policyholders.
2. Based on prior FCT reports, without management action, the 1-in-100-year 4-year combined scenario resulted in a 130% MCT drop; with management action resulted in a 120% MCT drop.
3. External Appointed Actuary did an independent review of an upper threshold for the MCT and recommended 120%.

Proposed Change from Release to Rebate

Reasons for the Change:

1. Capital release mixes the **prospective** ratemaking with the capital build/release provisions that result from the **prior** period experience.
2. Rebates can release capital to rate payers quicker than releases.
3. Reduces perceived rate volatility with annual changes/removal of the capital release.
4. Disassociates the change in overall rates on premiums with the ability to distribute excess surplus.

Proposed Change from Release/Rebate on Forecasted to Actual Audited Results

- **Rebate is based on actual audited year end MCT ratios and not forecasted MCT**
  - Rebate based on fiscal year end 21/22 forecasted to be 100% actual was 95%
  - Uncertainty in all forecasts
- **Considerations**
  - Rebate may be adjusted for discretionary items such as unrealized gains in the pension fund as those can not be liquidated and realized
  - Rebate would be dependent on forecasted MCT staying about 100%

Five Year Forecast

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Key Forecast Changes in Rate Update

1. Re-forecasted using available July 31, 2022, actual financial results
2. Updated inflation adjustments
3. Use of August 31 interest rates
4. Additional line in PF-3 for MCT ratio; to show MCT without Accumulated Other Comprehensive Income (AOCI) Employee Future Benefits (EFB)

Revenues & Capital Release

Largest portion of earned revenues from motor vehicles with remaining from driver premiums and service fees.

5-Year Forecast includes the following:

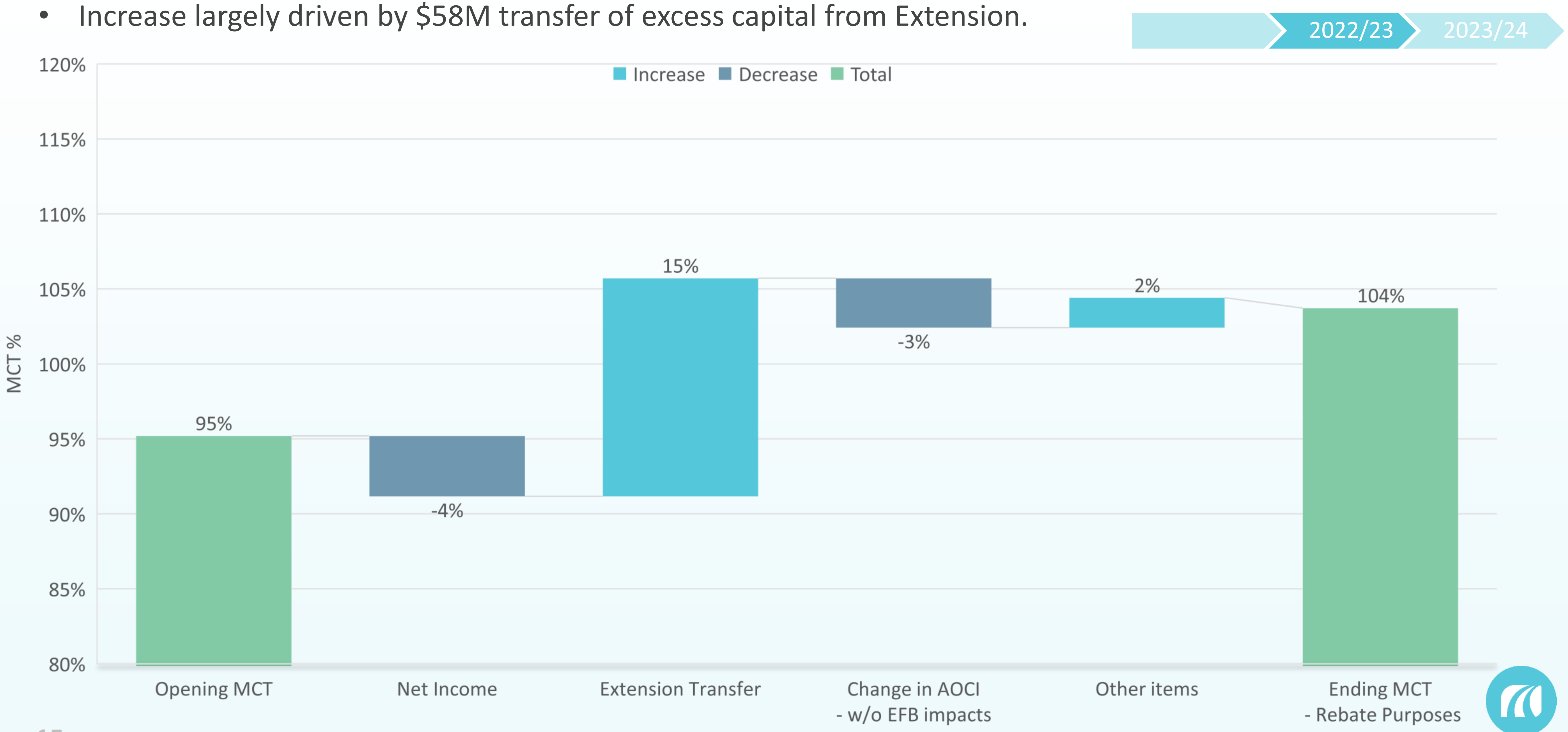
- Expect growth of Basic earned vehicle units
  - 1.11% in 2023/24 and 1.07% for the other forecast periods
- Rate impact of -1.6% from 2022 GRA Order and -0.1% included for 2023/24 year; no other rate changes assumed for other forecast periods
- Upgrade factor varies from 2.41% to 2.55% throughout the forecast period
- Capital release has higher impact in 2022/23 due to two year earning period
  - Release continues to earn over 2021/22 and another capital release in 2022/23 which will earn over two years (2022/23 – 2023/24)
- Capital release provision removed in 2023/24 and onward as per new CMP

Updated Basic Net Income & Capital Forecast

Line Item	2021-2022 (Actual)	2022-2023 (Forecast)	2023-2024 (Forecast)	2024-2025 (Forecast)	2025-2026 (Forecast)	2026-2027 (Forecast)
	$Millions					
Earned Vehicle Premium	1,143	1,150	1,181	1,225	1,269	1,314
Total Earned Revenues	1,167	1,178	1,209	1,252	1,297	1,342
Capital Release	-36	-67	-28	0	0	0
Total Claim Costs	862	954	1,110	1,158	1,204	1,260
Total Expenses	154	175	199	208	206	208
Investment Income	-47	1	121	120	126	130
Net Income	67	-16	-8	5	13	4
Rebate Paid/Accrued	-157	0	0	0	-110	0
Total Equity	411	463	489	537	494	567
MCT Ratio	95.2%	114.2%	120.1%	126.2%	109.5%	122.0%
MCT Ratio – excluding AOCI EFB Pension	95.2%	103.7%	109.7%	116.2%	100.0%	113.0%

2022/23 Capital Forecast for Basic

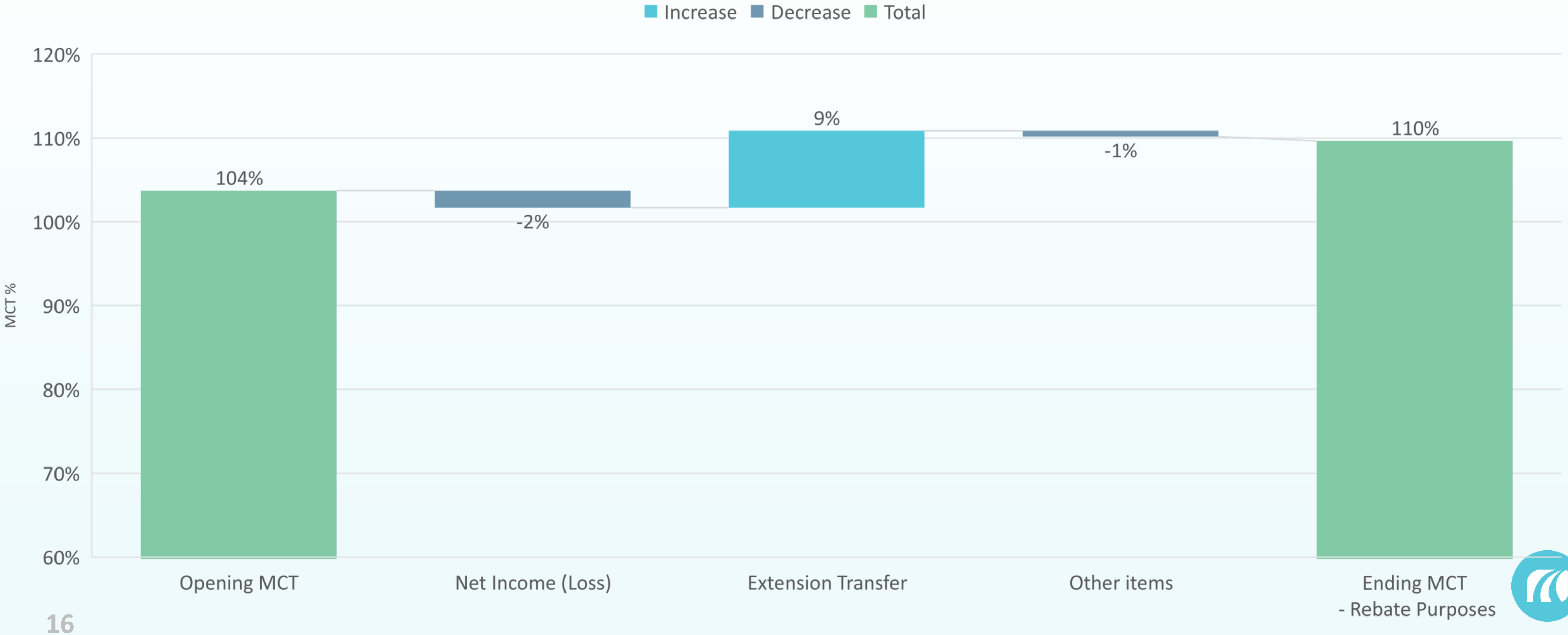
- As of March 31, 2023, the MCT ratio is expected to grow from 95% to 104%.
- Increase largely driven by $58M transfer of excess capital from Extension.



2023/24 Capital Forecast for Basic

- As of March 31, 2024, the MCT ratio is expected to grow from 104% to 110% after adjusting for AOCI EFB.
- Increase driven by $37M transfer of excess capital from Extension.

2022/23 | 2023/24



Questions