

October 6, 2017

2018 GRA Information Requests – Pre-Ask
PUB (MPI) 1**PUB (MPI) Pre-Ask 1**

Volume and Chapter:	PUB (MPI) 2-9	Page No.:	
Topic:			
Sub Topic:			
Issue:			

Preamble to IR (If Any):**Question:**

Please provide an update to the response to PUB (MPI) 2-9 to reflect actual market interest rates as of the end of September 2017, including:

- a) an update to Figure RM-11; and
- b) a corresponding updated response to PUB (MPI) 2-36.

Rationale for Question:**RESPONSE:**

Please note that this update of the interest rate at September 30th is essentially the same exercise MPI proposes for the November 30th update.

a) and b)

The actual market interest rate as of September 30, 2017 is 2.10%, reflecting an increase of 0.46% from 1.64% when the 2018 GRA was filed. The change in the interest rate increased the projected duration weighted investment return of the fixed income portfolio from 3.78% to 4.15%.

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The figure below presents the experience rate changes by major class and overall, based on the updated projected duration weighted investment return of the fixed income portfolio of 4.15%. Two sets of experience rate changes are provided. The first set is based on the initial filing per *Volume II Ratemaking Figure RM-11*. The second set is based on the response to *PUB (MPI) 2-36*, which is based on no changes to the DSR scale. MPI did not run the rate model to obtain the proposed rate changes since the proposed rate changes are, in general, approximately equal to the experience rate changes.

Figure 1: Experience Rate Change

Major Class	Experience Rate Change per RM.11	Experience Rate Change per PUB 2-36
Private Passenger	1.9%	3.5%
Commercial	0.5%	2.8%
Public	0.3%	1.4%
Motorcycles	1.2%	3.4%
Trailers	16.4%	16.4%
Off-Road Vehicles	-44.6%	-44.4%
Overall	2.0%	3.6%

Please see *Appendix 1* to this Information Request for *PF.1*, *PF.2* and *PF.3* based on the overall rate change of 1.95%.

Please see *Appendix 2* to this Information Request for *PF.1*, *PF.2* and *PF.3* based on the overall rate change of 3.60%.

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**2018 GRA Information Requests - Pre-Ask
PUB (MPI) Pre-Ask 1 Appendix 1**
PF.1 STATEMENT OF OPERATIONS
Multi-year - Statement of Operations
PUB Pre-Ask 1: +1.95% Rate Change with September 2017 Naive Interest Rate Forecast

	For the Years Ended February 28/29,						
	2017	2018	2018	2019	2020	2021	2022
(C\$ 000s, rounding may affect totals)							
BASIC	2016/17A	2017/18B	2017/18FB	2018/19F	2019/20F	2020/21F	2021/22F
Motor Vehicles	886,998	958,740	958,740	1,017,858	1,060,145	1,104,624	1,149,995
Drivers	48,426	50,892	50,334	69,148	71,252	73,311	75,162
Reinsurance Ceded	(11,635)	(11,291)	(11,291)	(11,517)	(11,747)	(11,982)	(12,222)
Total Net Premiums Written	923,789	998,341	997,783	1,075,489	1,119,650	1,165,953	1,212,935
Net Premiums Earned							
Motor Vehicles	871,174	925,950	925,950	990,557	1,040,617	1,084,083	1,129,043
Drivers	47,606	49,543	49,265	59,702	70,196	72,277	74,233
Reinsurance Ceded	(11,635)	(11,291)	(11,291)	(11,517)	(11,747)	(11,982)	(12,222)
Total Net Premiums Earned	907,145	964,202	963,924	1,038,742	1,099,066	1,144,378	1,191,054
Service Fees & Other Revenues	20,748	22,204	22,204	24,328	26,389	28,487	30,800
Total Earned Revenues	927,893	986,406	986,128	1,063,070	1,125,455	1,172,865	1,221,854
Net Claims Incurred	872,119	843,373	811,915	856,862	908,775	955,233	1,005,907
(a) Claims Incurred - Interest Rate Impact	(12,084)	-	(139,771)	5,876	462	(669)	(1,633)
Total Claims Incurred	860,035	843,373	672,144	862,738	909,237	954,564	1,004,274
Claims Expense	120,972	134,271	134,294	137,564	139,525	142,505	143,919
Road Safety/Loss Prevention	12,530	13,214	13,210	13,061	12,918	13,181	13,417
Total Claims Costs	993,537	990,858	819,648	1,013,363	1,061,680	1,110,250	1,161,610
Expenses							
Operating	72,785	72,596	72,563	74,763	75,313	77,110	79,124
Commissions	35,086	37,669	37,655	40,488	42,470	44,175	45,935
Premium Taxes	27,563	29,265	29,256	31,508	33,324	34,691	36,098
Regulatory/Appeal	4,889	4,056	4,054	4,132	4,216	4,302	4,389
Total Expenses	140,323	143,586	143,528	150,891	155,323	160,278	165,546
Underwriting Income (Loss)	(205,967)	(148,038)	22,952	(101,184)	(91,548)	(97,663)	(105,302)
Investment Income	101,645	102,478	95,758	84,701	87,301	90,302	93,923
(b) Investment Income - Interest Rate Impact	(18,748)	-	(60,765)	0	(0)	0	(0)
Net Investment Income	82,897	102,478	34,993	84,701	87,301	90,302	93,923
Net Income (Loss) from Operations for Rate Setting	(123,070)	(50,953)	42,677	(22,934)	(2,001)	(3,754)	(5,269)
Add: DPAC / Premium Deficiency adjustment	-	(5,393)	(15,268)	(6,451)	2,246	3,607	6,110
Net Income (Loss)	(123,070)	(45,560)	57,945	(16,483)	(4,247)	(7,361)	(11,379)
Total net Impact due to interest rate change (b) - (a)	(6,664)	-	79,006	(5,876)	(462)	669	1,633

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**2018 GRA Information Requests - Pre-Ask
PUB (MPI) Pre-Ask 1 Appendix 1**
PF.2 STATEMENT OF FINANCIAL POSITION
Multi-year - Statement of Financial Position
PUB Pre-Ask 1: +1.95% Rate Change with September 2017 Naive Interest Rate Forecast

(C\$ 000s, rounding may affect totals)	As at February 28/29,						
	2017	2018	2018	2019	2020	2021	2022
BASIC	2016/17A	2017/18B	2017/18FB	2018/19F	2019/20F	2020/21F	2021/22F
Assets							
Cash and cash equivalents	61,606	11,530	11,486	11,672	11,808	17,810	22,471
Investments	2,189,534	2,303,479	2,258,429	2,341,585	2,432,946	2,522,739	2,615,137
Investment property	35,615	35,906	35,938	37,764	37,812	37,695	36,878
Due from other insurance companies	16	-	-	-	-	-	-
Accounts receivable	355,389	334,196	334,047	356,872	370,774	385,013	399,499
Deferred policy acquisition costs	-	-	6,426	14,586	13,561	11,238	6,439
Reinsurers' share of unpaid claims	611	-	-	-	-	-	-
Property and equipment	89,847	88,665	88,665	90,237	90,615	88,071	84,746
Deferred development costs	72,866	69,306	69,306	69,033	73,109	74,421	72,691
	2,805,484	2,843,082	2,804,297	2,921,749	3,030,625	3,136,987	3,237,861
Liabilities							
Due to other insurance companies	147	114	114	114	114	114	114
Accounts payable and accrued liabilities	40,443	31,263	31,263	32,225	32,454	33,083	33,631
Financing lease obligation	3,239	2,983	2,983	2,907	2,826	2,726	2,618
Unearned premiums and fees	472,041	508,511	508,231	548,322	572,529	598,031	624,169
Provision for employee current benefits	16,919	17,362	17,362	18,087	18,822	19,568	20,325
Provision for employee future benefits	301,245	310,108	310,108	323,746	338,675	354,155	370,177
Provision for unpaid claims	1,790,450	1,856,651	1,705,970	1,779,831	1,847,148	1,911,726	1,973,812
	2,624,484	2,726,992	2,576,031	2,705,232	2,812,568	2,919,403	3,024,846
Equity							
Retained Earnings	99,251	53,691	157,196	140,714	136,464	129,103	117,724
Accumulated Other Comprehensive Income	81,749	62,399	71,069	75,805	81,593	88,480	95,291
Total Equity	181,000	116,090	228,266	216,518	218,057	217,583	213,015
Total Liabilities & Equity	2,805,484	2,843,082	2,804,297	2,921,750	3,030,625	3,136,986	3,237,861

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**2018 GRA Information Requests - Pre-Ask
PUB (MPI) Pre-Ask 1 Appendix 1**
PF.3 STATEMENT OF CHANGES IN EQUITY

Multi-year - Statement of Changes in Equity

PUB Pre-Ask 1: +1.95% Rate Change with September 2017 Naive Interest Rate Forecast

(C\$ 000s, rounding may affect totals)	For the Years Ended February,						
	2017	2018	2018	2019	2020	2021	2022
BASIC	2016/17A	2017/18B	2017/18FB	2018/19F	2019/20F	2020/21F	2021/22F
Total Equity							
Retained Earnings							
Beginning Balance	194,497	99,251	99,251	157,196	140,714	136,464	129,103
Net Income (Loss) from annual operations	(123,070)	(45,560)	57,946	(16,483)	(4,250)	(7,361)	(11,380)
Transfer (to) / from Non-Basic Retained Earnings	27,824	-	-	-	-	-	-
Total Retained Earnings	99,251	53,691	157,196	140,714	136,464	129,103	117,724
Accumulated Other Comprehensive Income							
Beginning Balance	36,503	81,749	81,749	71,069	75,805	81,593	88,480
Other Comprehensive Income for the Year	45,246	(19,350)	(10,680)	4,735	5,788	6,887	6,811
Total Accumulated Other Comprehensive Income	81,749	62,399	71,069	75,805	81,593	88,480	95,291
Total Equity Balance	181,000	116,090	228,266	216,518	218,057	217,583	213,015
Total Equity							
Rate Stabilization Reserve							
Retained Earnings	99,251	53,691	157,196	140,714	136,464	129,103	117,724
Accumulated Other Comprehensive Income	81,749	62,399	71,069	75,805	81,593	88,480	95,291
Total Rate Stabilization Reserve	181,000	116,090	228,266	216,518	218,057	217,583	213,015
Retained Earnings in excess of Rate Stabilization Reserve	-	-	-	-	-	-	-
Total Equity Balance	181,000	116,090	228,266	216,518	218,057	217,583	213,015

RATE STABILIZATION RESERVE TARGETS

DCAT Total Equity Lower Target	181,000	181,000	181,000	201,000*	201,000*	201,000*	201,000*
MCT Total Equity Upper Target	366,000	411,000	411,000	438,000	438,000	438,000	438,000

* Revised based on 2018 GRA DCAT Results

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**2018 GRA Information Requests - Pre-Ask
PUB (MPI) Pre-Ask 1 Appendix 2**
PF.1 STATEMENT OF OPERATIONS
Multi-year - Statement of Operations
PUB Pre-Ask 1: +3.6% Rate Change & No DSR Increase with September 2017 Naive Interest Rate Forecast

	For the Years Ended February 28/29,						
	2017	2018	2018	2019	2020	2021	2022
(C\$ 000s, rounding may affect totals)							
BASIC	2016/17A	2017/18B	2017/18FB	2018/19F	2019/20F	2020/21F	2021/22F
Motor Vehicles	886,998	958,740	958,740	1,034,630	1,077,606	1,122,812	1,168,924
Drivers	48,426	50,892	50,892	52,418	53,917	55,409	56,739
Reinsurance Ceded	(11,635)	(11,291)	(11,291)	(11,517)	(11,747)	(11,982)	(12,222)
Total Net Premiums Written	923,789	998,341	998,341	1,075,531	1,119,776	1,166,239	1,213,441
Net Premiums Earned							
Motor Vehicles	871,174	925,950	925,950	999,584	1,057,760	1,101,936	1,147,629
Drivers	47,606	49,543	49,543	51,652	53,164	54,660	56,071
Reinsurance Ceded	(11,635)	(11,291)	(11,291)	(11,517)	(11,747)	(11,982)	(12,222)
Total Net Premiums Earned	907,145	964,202	964,202	1,039,719	1,099,177	1,144,614	1,191,478
Service Fees & Other Revenues	20,748	22,204	22,204	24,330	26,403	28,501	30,816
Total Earned Revenues	927,893	986,406	986,406	1,064,049	1,125,580	1,173,115	1,222,294
Net Claims Incurred	872,119	843,373	811,665	857,296	909,045	955,179	1,005,825
(a) Claims Incurred - Interest Rate Impact	(12,084)	-	(139,777)	5,878	463	(674)	(1,644)
Total Claims Incurred	860,035	843,373	671,888	863,174	909,508	954,505	1,004,181
Claims Expense	120,972	134,271	134,294	137,564	139,525	142,505	143,919
Road Safety/Loss Prevention	12,530	13,214	13,210	13,061	12,918	13,181	13,417
Total Claims Costs	993,537	990,858	819,392	1,013,799	1,061,951	1,110,191	1,161,517
Expenses							
Operating	72,785	72,596	72,563	74,763	75,313	77,110	79,124
Commissions	35,086	37,669	37,669	40,292	42,583	44,295	46,067
Premium Taxes	27,563	29,265	29,265	31,537	33,328	34,698	36,111
Regulatory/Appeal	4,889	4,056	4,054	4,132	4,216	4,302	4,389
Total Expenses	140,323	143,586	143,551	150,724	155,440	160,405	165,691
Underwriting Income (Loss)	(205,967)	(148,038)	23,463	(100,474)	(91,811)	(97,481)	(104,914)
Investment Income	101,645	102,478	95,746	84,713	87,312	90,315	93,934
(b) Investment Income - Interest Rate Impact	(18,748)	-	(60,769)	0	(0)	0	(0)
Net Investment Income	82,897	102,478	34,977	84,713	87,312	90,315	93,934
Net Income (Loss) from Operations for Rate Setting	(123,070)	(50,953)	42,921	(21,778)	(1,983)	(3,613)	(4,952)
Add: DPAC / Premium Deficiency adjustment	-	(5,393)	(15,519)	(6,017)	2,516	3,553	6,028
Net Income (Loss)	(123,070)	(45,560)	58,440	(15,761)	(4,499)	(7,166)	(10,980)
Total net Impact due to interest rate change (b) - (a)	(6,664)	-	79,007	(5,878)	(463)	674	1,644

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**2018 GRA Information Requests - Pre-Ask
PUB (MPI) Pre-Ask 1 Appendix 2**

PF.2 STATEMENT OF FINANCIAL POSITION**Multi-year - Statement of Financial Position***PUB Pre-Ask 1: +3.6% Rate Change & No DSR Increase with September 2017 Naive Interest Rate Forecast*

(C\$ 000s, rounding may affect totals)	As at February 28/29,						
	2017	2018	2018	2019	2020	2021	2022
BASIC	2016/17A	2017/18B	2017/18FB	2018/19F	2019/20F	2020/21F	2021/22F
Assets							
Cash and cash equivalents	61,606	11,530	11,488	11,673	11,809	17,814	22,482
Investments	2,189,534	2,303,479	2,258,821	2,341,855	2,433,212	2,523,126	2,615,836
Investment property	35,615	35,906	35,940	37,765	37,813	37,697	36,881
Due from other insurance companies	16	-	-	-	-	-	-
Accounts receivable	355,389	334,196	334,196	356,884	370,808	385,089	399,634
Deferred policy acquisition costs	-	-	6,678	14,887	13,613	11,366	6,669
Reinsurers' share of unpaid claims	611	-	-	-	-	-	-
Property and equipment	89,847	88,665	88,665	90,237	90,615	88,071	84,746
Deferred development costs	72,866	69,306	69,306	69,033	73,109	74,421	72,691
	2,805,484	2,843,082	2,805,094	2,922,334	3,030,979	3,137,584	3,238,939
Liabilities							
Due to other insurance companies	147	114	114	114	114	114	114
Accounts payable and accrued liabilities	40,443	31,263	31,263	32,225	32,454	33,083	33,631
Financing lease obligation	3,239	2,983	2,983	2,907	2,826	2,726	2,618
Unearned premiums and fees	472,041	508,511	508,511	547,667	571,890	597,442	623,661
Provision for employee current benefits	16,919	17,362	17,362	18,087	18,822	19,568	20,325
Provision for employee future benefits	301,245	310,108	310,108	323,746	338,675	354,155	370,177
Provision for unpaid claims	1,790,450	1,856,651	1,705,965	1,779,827	1,847,145	1,911,717	1,973,792
	2,624,484	2,726,992	2,576,306	2,704,573	2,811,926	2,918,805	3,024,318
Equity							
Retained Earnings	99,251	53,691	157,692	141,931	137,433	130,266	119,287
Accumulated Other Comprehensive Income	81,749	62,399	71,095	75,830	81,621	88,512	95,335
Total Equity	181,000	116,090	228,786	217,762	219,055	218,778	214,622
Total Liabilities & Equity	2,805,484	2,843,082	2,805,092	2,922,335	3,030,981	3,137,583	3,238,940

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**2018 GRA Information Requests - Pre-Ask
PUB (MPI) Pre-Ask 1 Appendix 2**
PF.3 STATEMENT OF CHANGES IN EQUITY
Multi-year - Statement of Changes in Equity
PUB Pre-Ask 1: +3.6% Rate Change & No DSR Increase with September 2017 Naive Interest Rate Forecast

(C\$ 000s, rounding may affect totals)	For the Years Ended February,						
	2017	2018	2018	2019	2020	2021	2022
BASIC	2016/17A	2017/18B	2017/18FB	2018/19F	2019/20F	2020/21F	2021/22F
Total Equity							
Retained Earnings							
Beginning Balance	194,497	99,251	99,251	157,692	141,931	137,433	130,266
Net Income (Loss) from annual operations	(123,070)	(45,560)	58,441	(15,760)	(4,498)	(7,167)	(10,979)
Transfer (to) / from Non-Basic Retained Earnings	27,824	-	-	-	-	-	-
Total Retained Earnings	99,251	53,691	157,692	141,931	137,433	130,266	119,287
Accumulated Other Comprehensive Income							
Beginning Balance	36,503	81,749	81,749	71,095	75,830	81,621	88,512
Other Comprehensive Income for the Year	45,246	(19,350)	(10,654)	4,736	5,791	6,891	6,823
Total Accumulated Other Comprehensive Income	81,749	62,399	71,095	75,830	81,621	88,512	95,335
Total Equity Balance	181,000	116,090	228,786	217,762	219,055	218,778	214,622
Total Equity							
Rate Stabilization Reserve							
Retained Earnings	99,251	53,691	157,692	141,931	137,433	130,266	119,287
Accumulated Other Comprehensive Income	81,749	62,399	71,095	75,830	81,621	88,512	95,335
Total Rate Stabilization Reserve	181,000	116,090	228,786	217,762	219,055	218,778	214,622
Retained Earnings in excess of Rate Stabilization Reserve	-	-	-	-	-	-	-
Total Equity Balance	181,000	116,090	228,786	217,762	219,055	218,778	214,622

RATE STABILIZATION RESERVE TARGETS

DCAT Total Equity Lower Target	181,000	181,000	181,000	201,000*	201,000*	201,000*	201,000*
MCT Total Equity Upper Target	366,000	411,000	411,000	438,000	438,000	438,000	438,000

* Revised based on 2018 GRA DCAT Results