

Revenues, Expenses and Ratemaking

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**Manitoba
Public Insurance**

Agenda

Revenues

1. Break even methodology (no profit)
2. Growth happening through upgrades (volume growth, vehicle make/model, territory factors, etc.)

Expenses

3. Year over year decrease of 2%
4. Expenditure forecast holding flat (in real terms)
5. Expenses growing slower than revenues

Ratemaking

6. Done on a break even basis
7. 2019/20 rate indication is 0.1% (for continued break even rates)
8. Ratemaking process is proven and stable over time.
9. **CMP is separate and distinct, but part of overall rate



Key Issues

Revenues

- Service fees (awaiting government review)
- DSR (Upcoming in 2020/21 GRA)

Expenses

- Compensation (Staffing and FTEs)
- Impairments
- Cost reduction initiatives

Ratemaking

- Capital Maintenance Provision (covered under INV/RSR Panel)

1 – Revenues

Basic Premiums

Drivers Premiums

Reinsurance Premiums

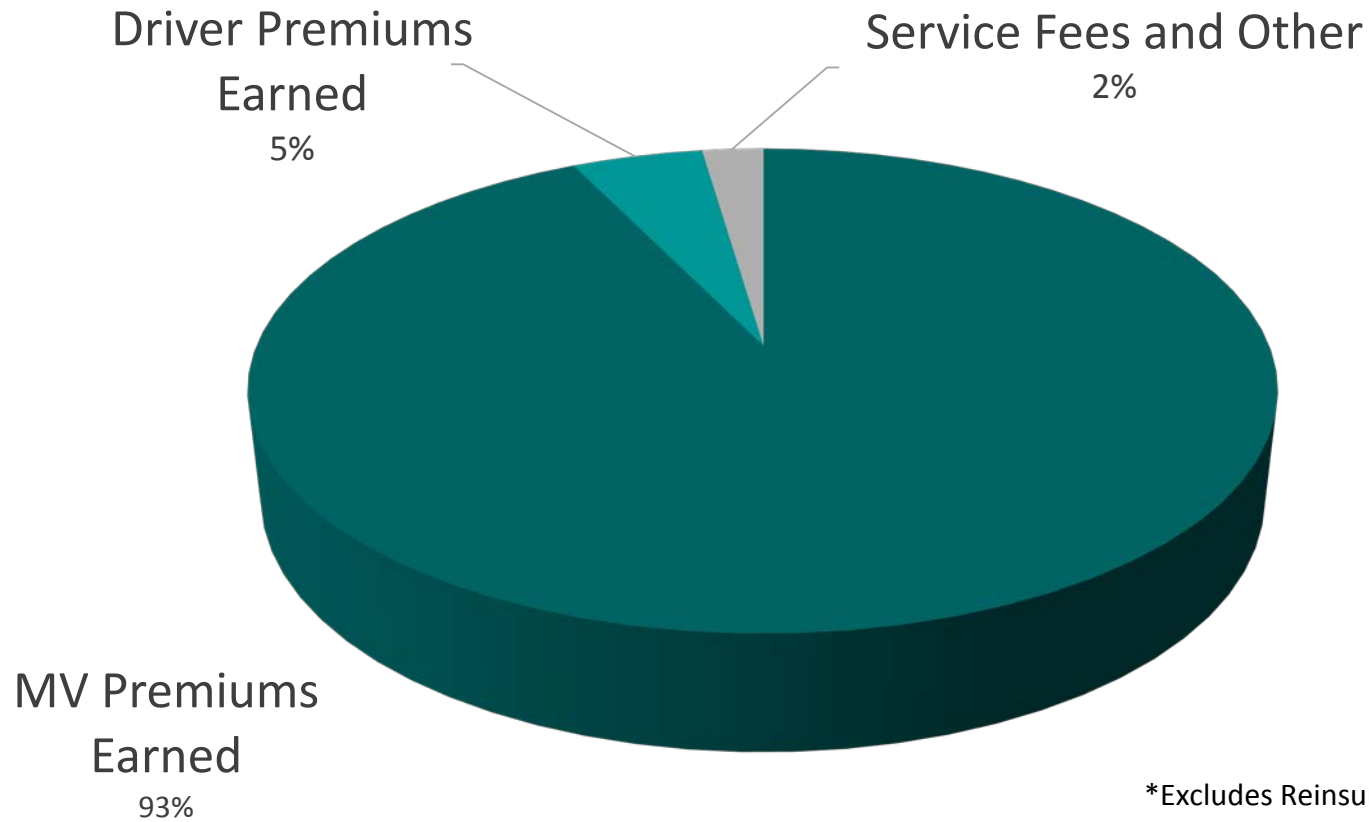
Service Fees



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MPI Revenues at a Glance

2019 / 20 Forecast - Earned Revenues*



*Excludes Reinsurance Ceded

Factors Impacting Revenues from Basic Premiums

Basic premiums are calculated based on the following drivers:

Rate

- Rate change ordered by the Public Utilities Board
- 2018/19 includes 2.6% increase ordered in 2018 GRA
- 2019/20 includes 2.2% applied for in 2019 GRA

Volume

- Growth in Basic earned vehicle units
- 1.50% assumption 2018/19 through to 2022/23

Upgrade

- 2.39% increasing to 2.54% in 2022/23

Other

- Anti theft discounts
- Fleet rebates



Forecasted Revenues from Basic Premiums

For the Years Ended February,

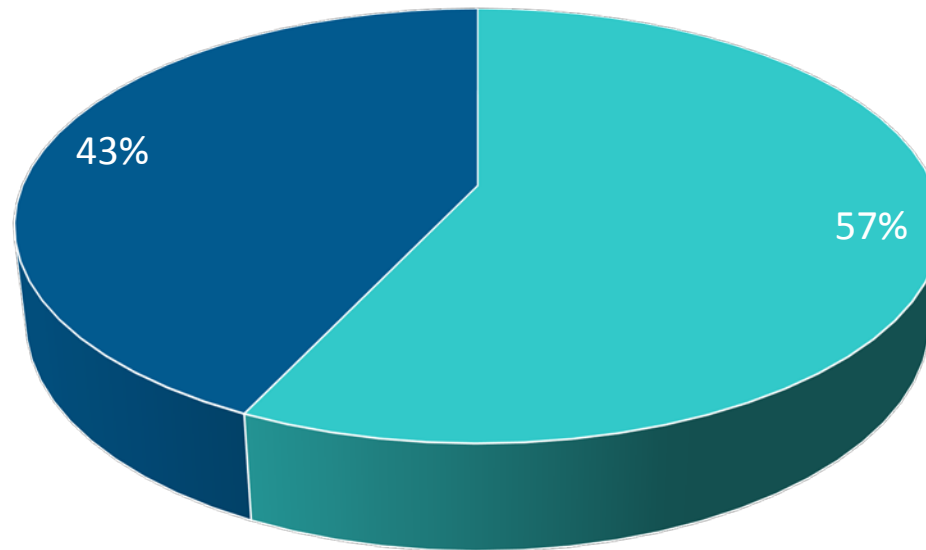
BASIC	2018A	2019B	2020F	2021F	2022F	2023F
Net Premiums Earned						
Motor Vehicles	922,617	991,058	1,054,643	1,109,287	1,154,898	1,202,165
Drivers	48,819	59,546	69,896	71,887	73,798	75,638
Reinsurance Ceded	(11,294)	(11,196)	(11,420)	(11,648)	(11,881)	(12,119)
Total Net Premiums Earned	960,142	1,039,408	1,113,119	1,169,526	1,216,815	1,265,684
Service Fees & Other Revenues	22,849	23,832	25,839	27,613	29,525	31,617
Total Earned Revenues	982,991	1,063,240	1,138,958	1,197,139	1,246,340	1,297,301

Revenues from Drivers Premiums

Drivers premiums are calculated based on the following :

- Basic driver's license insurance premium
- Drivers Safety Rating impacts

2019/20 Approximate Driver License Premium Makeup



■ Base \$45 ■ DSR (Demerits)

Drivers Premiums

For the Years Ended February,

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Reinsurance Premiums

- Risk management strategy
- Premium paid to Reinsurers to accept risk on MPI behalf
- We assign two types of risk to other reinsurers:
 - Catastrophic (should any one event exceed \$15M in claims, our Reinsurers will pay up to \$250M)
 - Casualty (should any one incident exceed \$5M in claims our Reinsurers will pay up to \$45M)

Reinsurance Premiums

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Service Fees & Other Revenue

- Comprised of interest revenues related to premium financing
 - Accounts for over 50% of the service fee and other revenue category
- Comprised of various service related fees
 - Approximately 25-30 basic related service fees
 - Largest service fee revenue items include short term policy fees and ownership document fees
- Service fee pricing currently under further review

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2 – Expenses



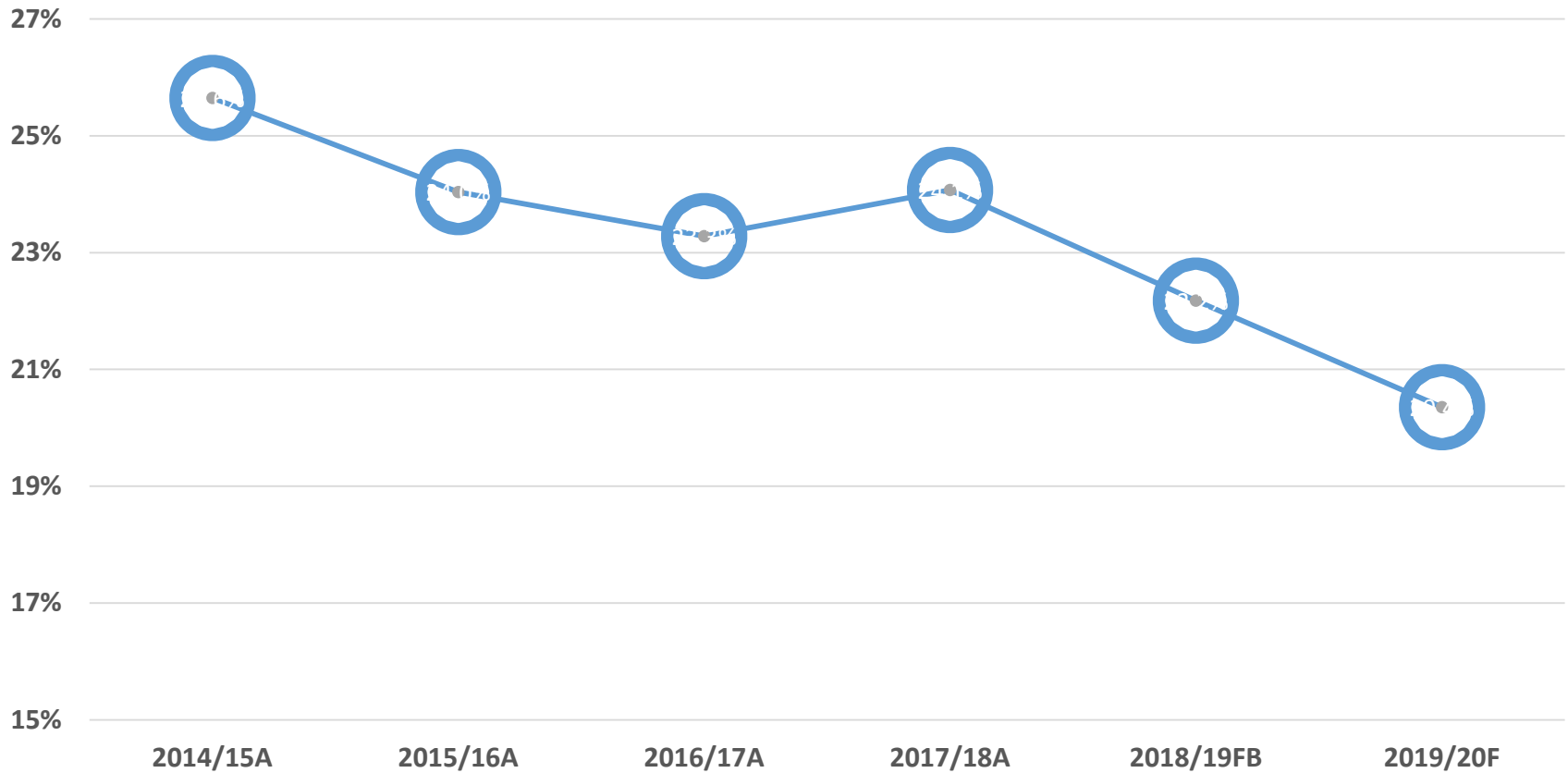
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Prudent Fiscal Management

- Basic operating expense reductions of approximately 1% (despite mandatory contractual wage increases and CPI)
- Reduction of building expenses
- Expect 50 FTE reductions from 2017/18 budgeted levels to 2020/21 budgeted levels
- Achievement of 2017/18 Cost Containment initiatives
- Embedding Value Management Process across the Business

Prudent Fiscal Management (Cont'd)

Operating Expenses / NPE

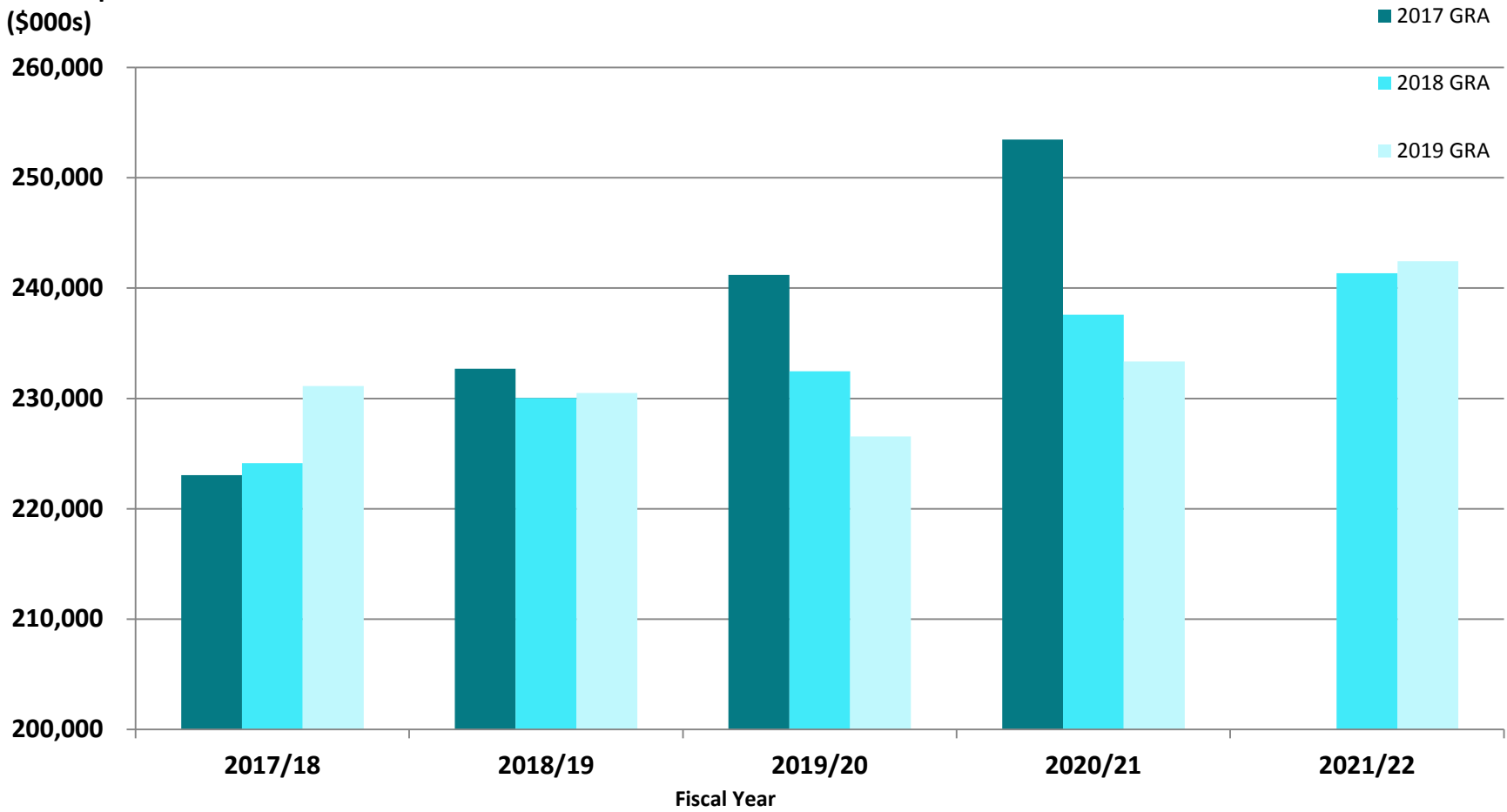


Prudent Fiscal Management (Cont'd)

	2019 GRA Avg. of Rating Yrs	2018 GRA Avg. of Rating Yrs	Change (2019-2018)	Change (Percent)
<i>(C\$ 000s, rounding may affect totals)</i>				
Basic Allocated Corporate Expenses				
Claims Expense	137,322	141,326	(4,004)	-2.8%
Road Safety/Loss Prevention	12,755	13,079	(324)	-2.5%
Operating	74,959	76,366	(1,407)	-1.8%
Regulatory/Appeal	4,919	4,260	659	15.5%
Total Basic Allocated Corporate Expenses	229,955	235,031	(5,076)	-2.2%
Basic Direct Expenses				
Commissions	43,763	43,581	182	0.4%
Premium Taxes	34,586	34,246	340	1.0%
Total Basic Direct Expenses	78,349	77,827	522	0.7%
Total Basic Expenses	308,304	312,858	(4,554)	-1.5%

Prudent Fiscal Management (Cont'd)

Basic Expenses
(\$000s)



Compensation

- Largest expense category comprising of approximately 58% of all corporate operating expenses
- Mandatory annual increases related to economic and merit
 - Per negotiations with MGEU
 - Basic salaries only expected to grow at an annual average of 2.9% from 2018/19 through to 2020/21
- Expected overtime reduced significantly over the past years and expected to remain flat throughout forecast

Compensation – Basic Expense Forecast

Expense	2018/19FB	2019/20F	2020/21F	2021/22F	2022/23F
(\$000's, except where noted)					
Compensation - Salaries	101,798	104,474	108,025	109,758	112,634
Compensation - Overtime	1,441	1,436	1,433	1,432	1,437
Compensation - Benefits	25,044	25,571	26,262	26,805	27,688
Compensation - H & E Tax	2,183	2,237	2,287	2,329	2,388
Subtotal - Compensation	130,466	133,718	138,007	140,324	144,147
% increase over prior year		2.49%	3.21%	1.68%	2.72%

Project Impairments

Impairment of Deferred Development Costs

	2017/18
Total Corporate Initiatives	Impairment
<i>(C\$000s, except where noted)</i>	
Physical Damage Re-Engineering Main/Phase 3	993
Financial Re-engineering Initiative	343
SRE Future State	55
High School Driver Education Phase 2	2,086
Enhanced DR Capabilities	681
Customer Claims Reporting System	15,624
PDR Opt Repair - Remote Estimating	229
HR Management System Phase 3 & 4	247
Total Impairment	20,258

3 – Ratemaking



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Basic Rates

- The Basic ratemaking methodology is proven and stable over time.
- MPI continues to operate in a fiscally prudent manner to keep rate asks to a minimum. Compared to the 2018 GRA:
 - Expenses per vehicle unit are down by 0.5%
 - Claims costs per unit increased by only 2% per unit, which was less than natural premium upgrade of 2.2%
- AAP Rate Indication = +0.1%; Capital Maintenance Provision: +2.1%; Total Rate Ask: +2.2%

2.2% Vehicle Premium Rate Increase (Including Net CMP)

- Stable rate increases by Major Class
- Approximately 70% of vehicles have a rate change of less than +\$50 or less than +5%.

RM -1: Indicated Rate Change*

Line No.	Major Class	Current Average Rate	Indicated Average Rate	Indicated Rate Change
1	Private Passenger	\$1,111	\$1,138	2.4%
2	Commercial	\$780	\$798	2.4%
3	Public	\$2,003	\$2,014	0.6%
4	Motorcycles	\$797	\$822	3.1%
5	Trailers	\$81	\$78	-4.7%
6	Off-Road Vehicles	\$10	\$8	-20.0%
7	Overall	\$855	\$874	2.2%

*As at the time of filing the 2019 GRA

Appendix - Breakeven Rate Indication

- The table below compares the undiscounted overall costs per vehicle (average) for the components making up the required rate.

Components	2018 Undiscounted AAP Rates, \$	2019 Undiscounted AAP Rates, \$	\$ Change/ Impact on AAP Rates	% Change	\$ Change as % of 2018 AAP Required Rate
Claims	753.32	768.57	15.25	2.0%	1.7%
Claims Expense	126.97	123.29	(3.68)	-2.9%	-0.4%
Road Safety/Loss Prevention	10.98	10.63	(0.35)	-3.2%	0.0%
Operating Expense	63.44	62.48	(0.97)	-1.5%	-0.1%
Regulatory Appeal	3.53	4.10	0.57	16.1%	0.1%
Commission	39.13	39.39	0.26	0.7%	0.0%
Premium Tax	30.99	31.29	0.30	1.0%	0.0%
Reinsurance	9.84	9.61	(0.23)	-2.3%	0.0%
Fleet Rebates	13.78	13.46	(0.32)	-2.3%	0.0%
Anti-Theft Discount	2.35	1.97	(0.38)	-16.1%	0.0%
Driver Premium	(58.50)	(59.09)	(0.58)	1.0%	-0.1%
Service Fees	(21.41)	(21.90)	(0.49)	2.3%	-0.1%
Total Undiscounted	974.43	983.80	9.37	1.0%	1.1%
Impact of Discounting	(93.12)	(81.97)	11.15	-12.0%	1.3%
AAP Required Rate	881.31	901.83	20.52	2.3%	2.3%
Natural Upgrade (Difference in forecasted upgrade plus upgrade for one additional year)					-2.1%
DSR Discounts for VFH Vehicles (Part V, Ratemaking, page 30)					-0.1%
Breakeven Rate Indication					0.1%

Drivers behind 2019/2020 Rate Change

2019 Basic Rate Indication

AAP Required Rate*	+2.30%
Vehicle Upgrade	-2.10%
Taxi Adjustment	-0.10%
Total AAP Rate Change	+0.10%
Capital Maintenance Provision	+2.10%
Total Overall Rate Change	+2.20%

- AAP required rate increased by 2.3% from 2018 GRA
 - Claims costs = +1.7%
 - Changes in Interest Rates (decrease) = +1.3%
 - Claims and operating expense improvements = -0.5%
 - Service Fee and Driver Premium Revenues = -0.2%

Summary of Key Themes

Revenues

- Based on break even ratemaking
- Steady growth from upgrade and other factors

Expenses

- Growing slower than revenues
- Holding flat through forecast

Ratemaking

- Proven process
- Resulting in 0.1% indication based on AAP (break even)
- CMP is main driver of 2.2% rate indication (discussed in detail on INV/RSR/CMP Panel)