Revenues, Expenses and Investments

Mark Giesbrecht CPA, CGA Vice President, Finance & Chief Financial Officer

Luke Johnston, FCIA Chief Actuary and Vice President, Product and Risk Management

Cynthia Campbell, MAcc, CPA, CA Corporate Controller

Glenn Bunston, CFA, CAIA, Manger, Investments

Agenda

Revenues

1. Components comprising premium revenue
2. Growth trends

Expenses

3. 2018/19 Basic Expenses were 5.1% lower than budget
4. Expenditure forecast holding flat (in real terms)
5. Expenses growing slower than revenues

Agenda (Cont.)

Investments and Implementation of the New Investment Strategy

6. Investment Objectives
7. ALM Study Results & Actions
8. Implementation Update
9. Interest Rate Forecast
10. Shadow Portfolios

1. Revenues

Basic Premiums

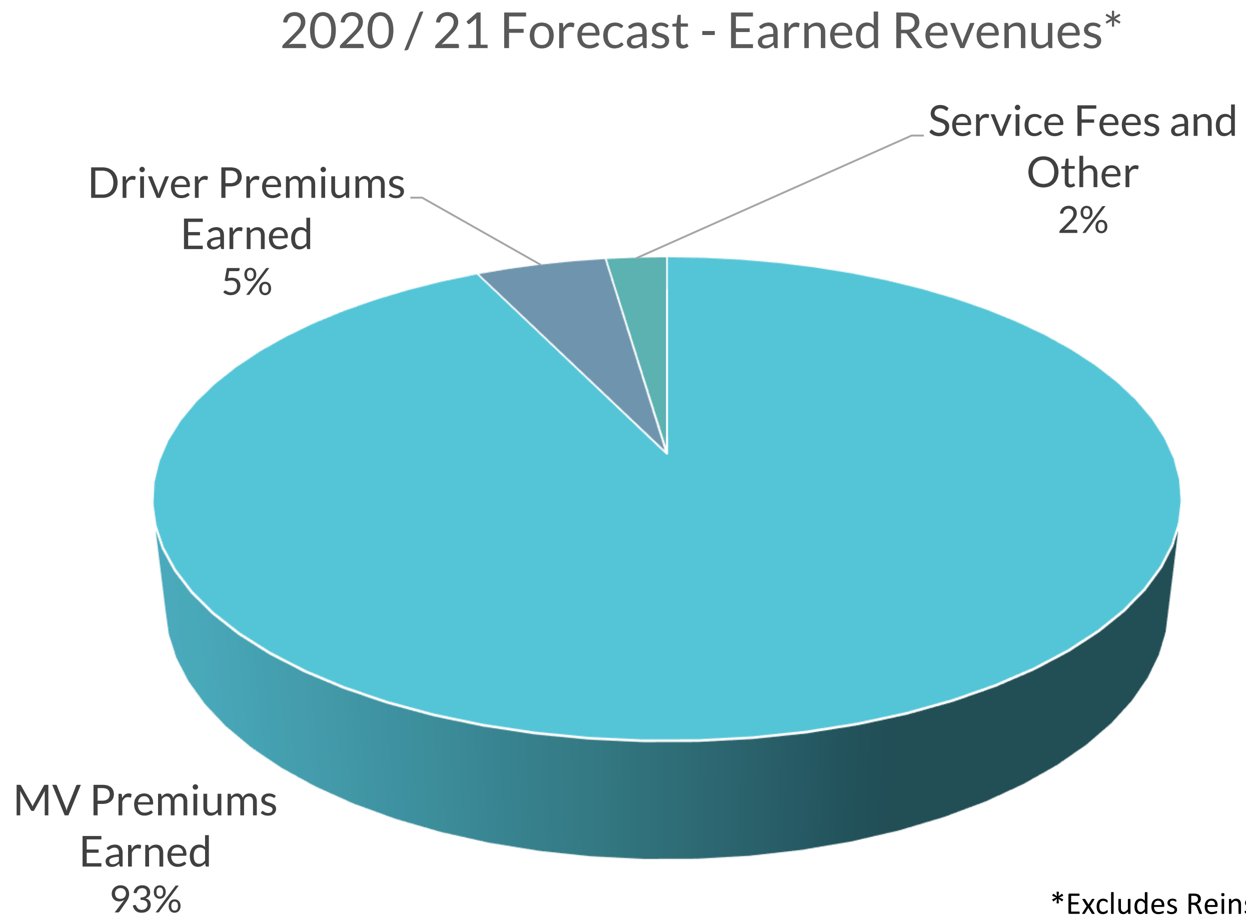
Drivers Premiums

Reinsurance Premiums

Service Fees

Mark Giesbrecht CPA, CGA Vice President, Finance
& Chief Financial Officer

MPI Revenues at a Glance



*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
- 2019/20 includes 1.8% increase ordered in 2019 GRA
- 2020/21 includes -0.6% applied for in the 2020 GRA

Volume

- Growth in Basic earned vehicle units
- 1.40% assumption 2019/20 through to 2023/24

Upgrade

- Ranges from 2.50% to 2.58% throughout the forecast

Other

- Anti theft discounts
- Fleet rebates

Forecasted Revenues from Basic Premiums

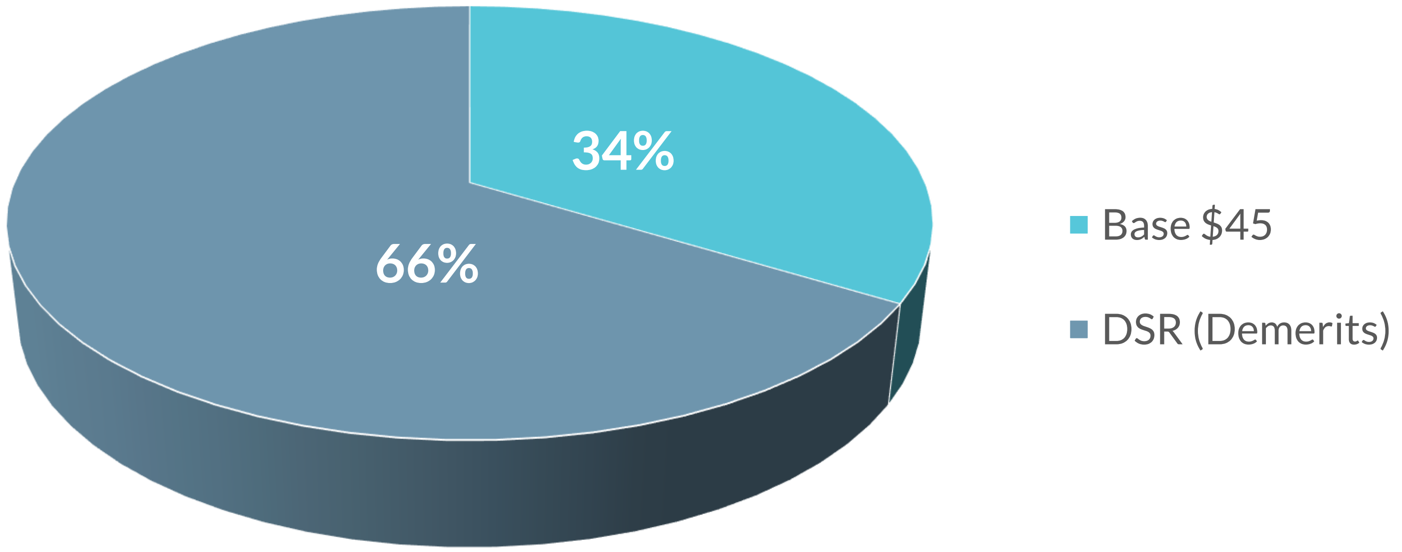
(C$ 000s)	*For the Years Ended February,*					
	2019A	**2020P**	**2021F**	**2022F**	**2023F**	**2024F**
Net Premiums Earned						
Motor Vehicles	980,770	1,034,264	1,084,045	1,124,535	1,169,429	1,216,425
Drivers	58,667	68,568	71,268	73,190	75,024	76,693
Reinsurance Ceded	(12,502)	(14,217)	(14,433)	(14,722)	(15,016)	(15,316)
Total Net Premiums Earned	**1,026,935**	**1,088,615**	**1,140,880**	**1,183,003**	**1,229,437**	**1,277,802**
Service Fees & Other Revenues	24,568	26,511	28,211	30,203	32,395	34,804
Total Earned Revenues	**1,051,503**	**1,115,126**	**1,169,091**	**1,213,206**	**1,261,832**	**1,312,606**

Revenues from Drivers Premiums

Drivers premiums are calculated based on the following :

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

2020/21 Approximate Driver License Premium Makeup



Drivers Premiums

(C$ 000s)	*For the Years Ended February,*					
	2019A	**2020P**	**2021F**	**2022F**	**2023F**	**2024F**
Net Premiums Earned						
Motor Vehicles	980,770	1,034,264	1,084,045	1,124,535	1,169,429	1,216,425
Drivers	58,667	68,568	71,268	73,190	75,024	76,693
Reinsurance Ceded	(12,502)	(14,217)	(14,433)	(14,722)	(15,016)	(15,316)
Total Net Premiums Earned	**1,026,935**	**1,088,615**	**1,140,880**	**1,183,003**	**1,229,437**	**1,277,802**
Service Fees & Other Revenues	24,568	26,511	28,211	30,203	32,395	34,804
Total Earned Revenues	**1,051,503**	**1,115,126**	**1,169,091**	**1,213,206**	**1,261,832**	**1,312,606**

Reinsurance Premiums

- Risk management strategy to reduce volatility
- Premium paid to Reinsurers to accept risk on MPI behalf
- We assign two types of risk to other reinsurers:
  - Catastrophic (Aggregate with $35M stop loss and limit up to $300M)
  - Casualty (should any one incident exceed $10M in claims our Reinsurers will pay up to $40M)

Reinsurance Premiums (Cont.)

(C$ 000s)	*For the Years Ended February,*					
	2019A	**2020P**	**2021F**	**2022F**	**2023F**	**2024F**
Net Premiums Earned						
Motor Vehicles	980,770	1,034,264	1,084,045	1,124,535	1,169,429	1,216,425
Drivers	58,667	68,568	71,268	73,190	75,024	76,693
Reinsurance Ceded	(12,502)	(14,217)	(14,433)	(14,722)	(15,016)	(15,316)
Total Net Premiums Earned	**1,026,935**	**1,088,615**	**1,140,880**	**1,183,003**	**1,229,437**	**1,277,802**
Service Fees & Other Revenues	24,568	26,511	28,211	30,203	32,395	34,804
Total Earned Revenues	**1,051,503**	**1,115,126**	**1,169,091**	**1,213,206**	**1,261,832**	**1,312,606**

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

Service Fees & Other Revenue (Cont.)

(C$ 000s)	*For the Years Ended February,*					
	2019A	**2020P**	**2021F**	**2022F**	**2023F**	**2024F**
Net Premiums Earned						
Motor Vehicles	980,770	1,034,264	1,084,045	1,124,535	1,169,429	1,216,425
Drivers	58,667	68,568	71,268	73,190	75,024	76,693
Reinsurance Ceded	(12,502)	(14,217)	(14,433)	(14,722)	(15,016)	(15,316)
Total Net Premiums Earned	**1,026,935**	**1,088,615**	**1,140,880**	**1,183,003**	**1,229,437**	**1,277,802**
Service Fees & Other Revenues	24,568	26,511	28,211	30,203	32,395	34,804
Total Earned Revenues	**1,051,503**	**1,115,126**	**1,169,091**	**1,213,206**	**1,261,832**	**1,312,606**

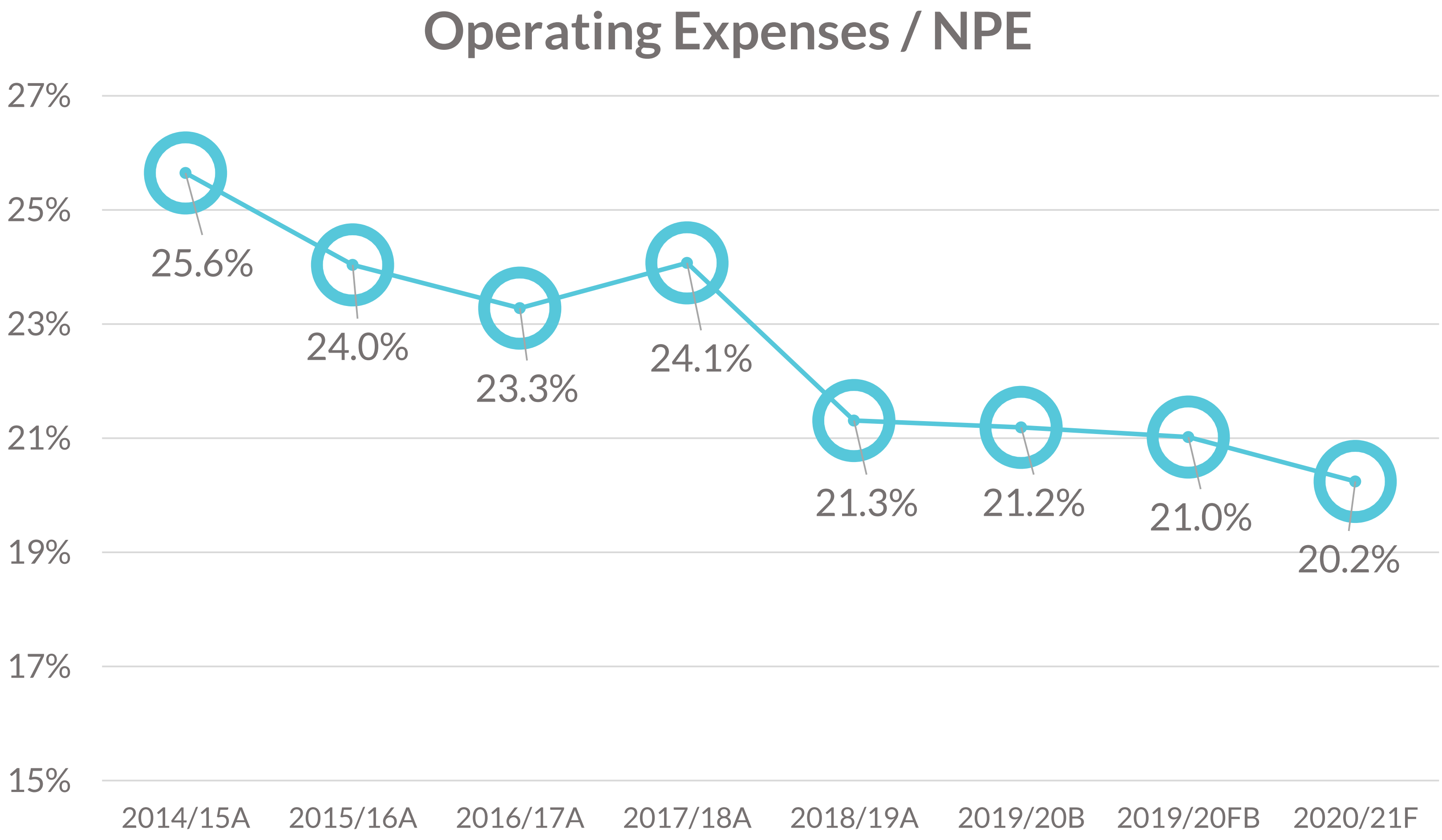
2. Expenses

Cynthia Campbell, MAcc, CPA, CA Corporate Controller

Prudent Fiscal Management

- In 2018/19, Basic expenses were approximately 5.1% under budget as compared to the 2019 GRA
- Average rating year (2020/21 and 2021/22) expenses are $5.4 million less than compared to the 2019 GRA
- Non-renewal of warehouse lease and consolidation with Cityplace mailroom reducing building expenses
- Value Management Process across the Business

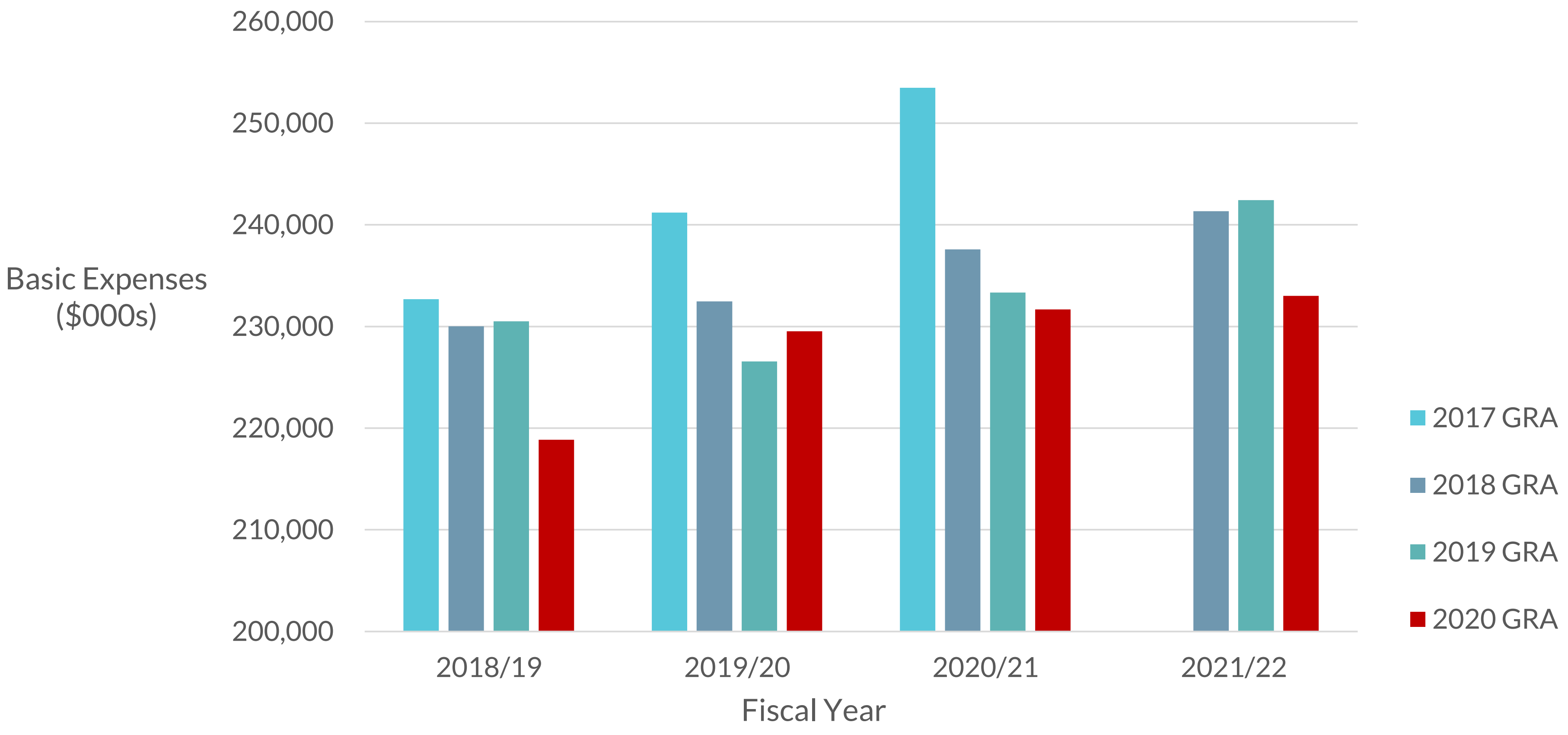
Prudent Fiscal Management (Cont.)



Prudent Fiscal Management (Cont'd)

	2020 GRA Avg. of Rating Yrs	2019 GRA Avg. of Rating Yrs	Change (2020-2019)	Change (Percent)
(C$ 000s, rounding may affect totals)				
Basic Allocated Corporate Expenses				
Claims Expense	139,001	141,773	(2,772)	-2.0%
Road Safety/Loss Prevention	13,396	12,911	485	3.8%
Operating	74,614	78,156	(3,542)	-4.5%
Regulatory/Appeal	5,330	5,056	274	5.4%
Total Basic Allocated Corporate Expenses	**232,340**	**237,896**	**(5,556)**	**-2.3%**
Basic Direct Expenses				
Commissions	45,345	45,723	(379)	-0.8%
Premium Taxes	35,458	36,148	(690)	-1.9%
Total Basic Direct Expenses	**80,803**	**81,871**	**(1,069)**	**-1.3%**
Total Basic Expenses	**313,143**	**319,767**	**(6,625)**	**-2.1%**

Prudent Fiscal Management (Cont'd)

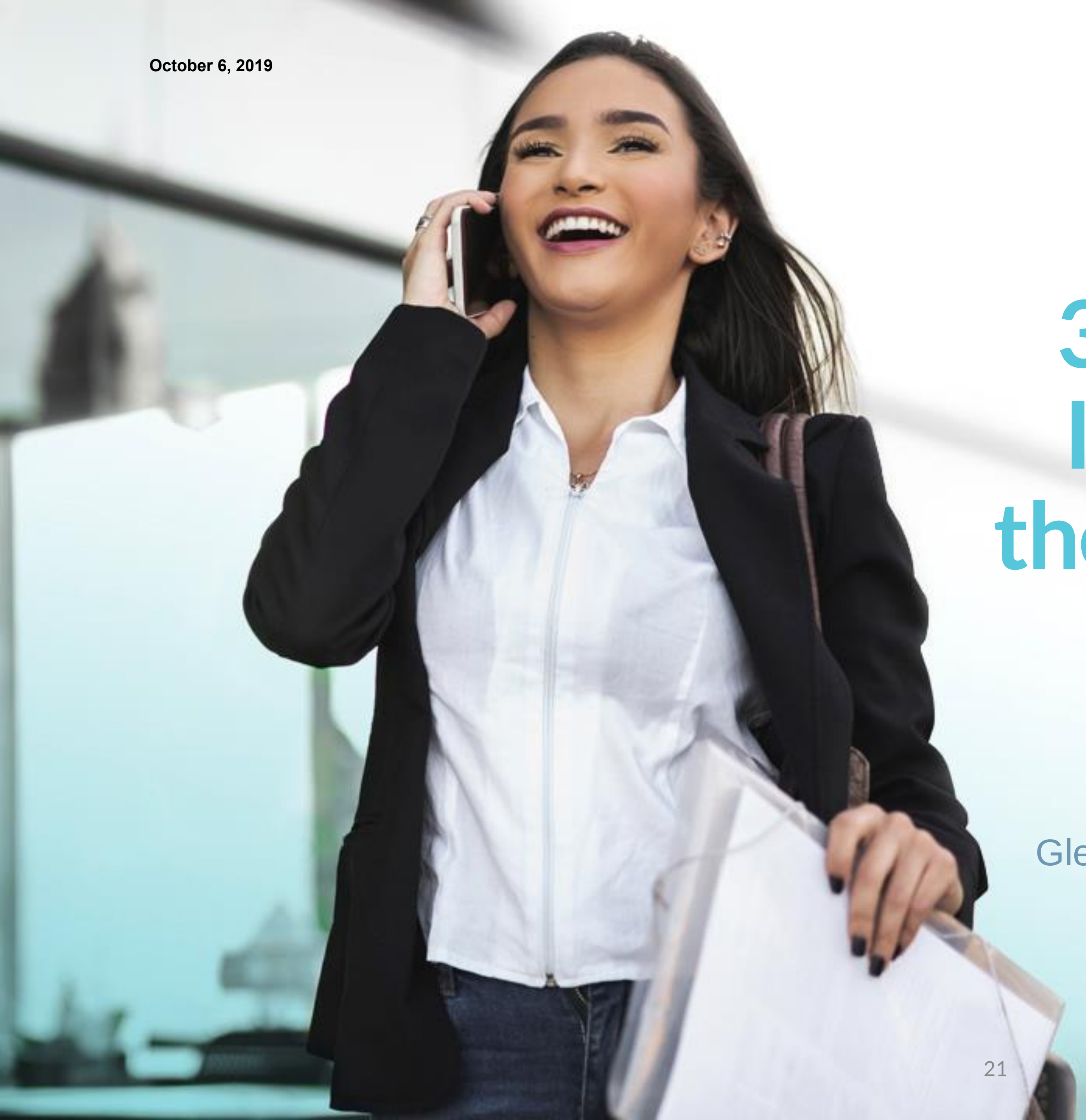


Compensation

- 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 expected to grow at an annual average of 2.3% from 2019/20 through to 2021/22
- Expected overtime reduced significantly over the past years and expected to remain flat throughout forecast

Compensation – Basic Expense Forecast

Expense	2019/20FB	2020/21F	2021/22F	2022/23F	2023/24F
($000's, except where noted)					
Compensation - Salaries	105,471	108,484	110,298	112,734	115,530
Compensation - Overtime	1,384	1,376	1,374	1,376	1,376
Compensation - Benefits	24,554	25,009	25,539	26,116	26,744
Compensation - H & E Tax	2,270	2,328	2,368	2,417	2,460
Subtotal - Compensation	**133,679**	**137,197**	**139,579**	**142,643**	**146,110**
% increase over prior year		2.63%	1.74%	2.20%	2.43%



3. Investments and Implementation of the New Investment Strategy

Glenn Bunston, CFA, CAIA, Manger, Investments

Agenda

1) Investment Objectives
2) ALM Study Results & Actions
3) Implementation Update
4) Interest Rate Forecast
5) Shadow Portfolios

MPI's Main Findings

- Unique investment strategies are better aligned to the purpose and characteristics of the associated liabilities.
- Volatility of the Basic Claims portfolio will be reduced.
- The expected reduction in investment risk will reduce MPI's required capital.
- The new investment strategy is almost fully implemented, with the exception of illiquid asset classes (private debt, infrastructure and real estate).

Investment Objectives

Investment Objectives of MPI's Board and Government

- Reduced premium/rate volatility
- Directly match investments to liabilities
- Develop unique investment strategies for each portfolio
- Ensure that capital is available to pay claims when necessary
- Appropriate levels of risk for each portfolio driven by the purpose of each portfolio (as set out in the IPS and determined by the Board)

ALM Study Results and Actions

Key Recommendations from ALM Study

Recommendation	Benefits
Segregate the assets of MPI's lines of business (Basic, SRE & Extension), RSR, & Employee Future Benefits (EFB)	Interest rate risk will be reduced by segmenting the portfolios Less volatility within the fixed income and equity portfolios Prudent asset mix in the RSR portfolio balances: 1) preservation of capital with 2) opportunity to earn returns in order to enhance rate stability and/or lower the rate indication
Significantly de-risk the assets backing MPI's Basic liabilities (no equities or alternatives)	
Increased diversification of MPI's fixed income portfolio	
Increased diversification of MPI's equity portfolio	
Reduce allocation to Equities, Real Estate & Infrastructure	

Impacts of Rising Interest Rates

The net impact from a 1.0% increase in interest rates is expected to fall significantly due to implementation of the segregated portfolios.

Line No.	Description	2019/20	2020/21	2021/22
1	**2018 GRA**			
2	**Marketable Bond G/L**	(113.0)	(117.1)	(120.1)
3	**Claims Interest Rate Impact**	(145.9)	(153.0)	(158.2)
4	**Net Impact**	**32.9**	**35.9**	**38.1**
5	**2019 GRA**			
6	**Marketable Bond G/L**	(131.6)	(144.5)	(154.8)
7	**Claims Interest Rate Impact**	(134.1)	(142.2)	(153.8)
8	**Net Impact**	**2.5**	**(2.3)**	**(1.0)**
9	**2020 GRA**			
10	**Marketable Bond G/L**	(146.3)	(148.6)	(160.9)
11	**Claims Interest Rate Impact**	(170.1)	(150.4)	(161.3)
12	**Net Impact**	**23.8**	**1.7**	**0.4**

Asset Allocation Changes

Previous Allocation for the Co-mingled Portfolio

- Growth assets include equities and alternative asset classes.

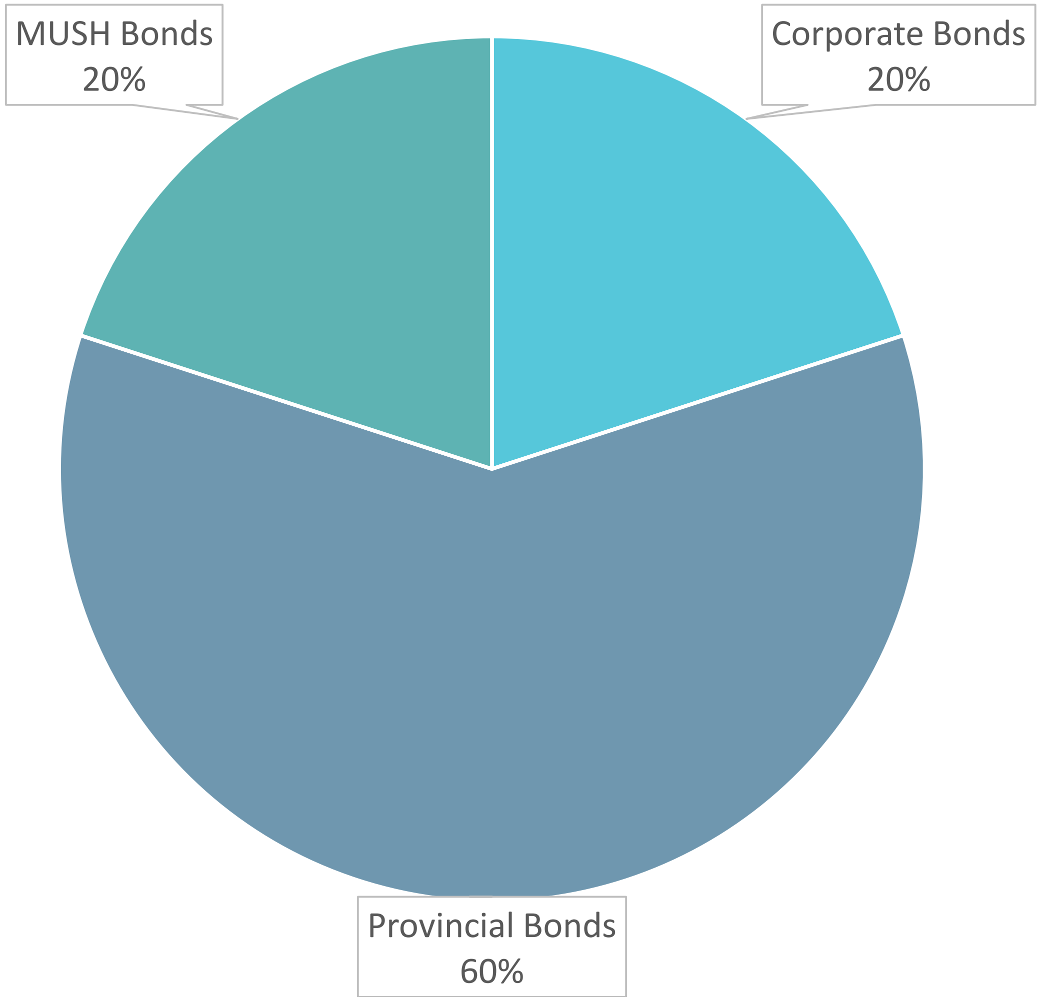
	Fixed Income	Growth Assets
Co-Mingled	70%	30%

New Allocations (Separated Portfolios)

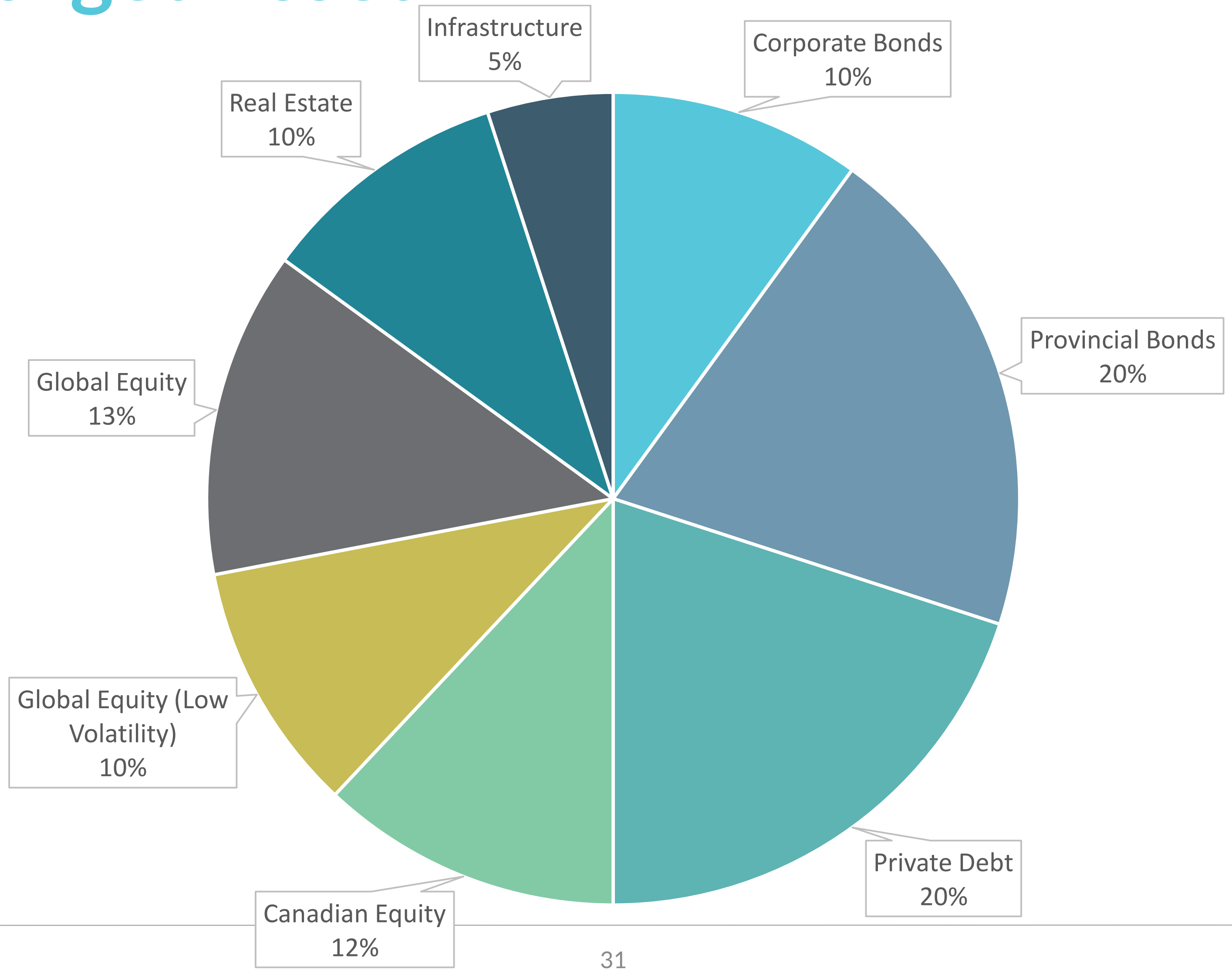
	Fixed Income	Growth Assets
Basic	100%	0%
RSR	50%	50%
EFB	40%	60%
Consolidated*	81%	19%

*the consolidated weights will vary with the relative weights of the Basic, RSR & EFB portfolios

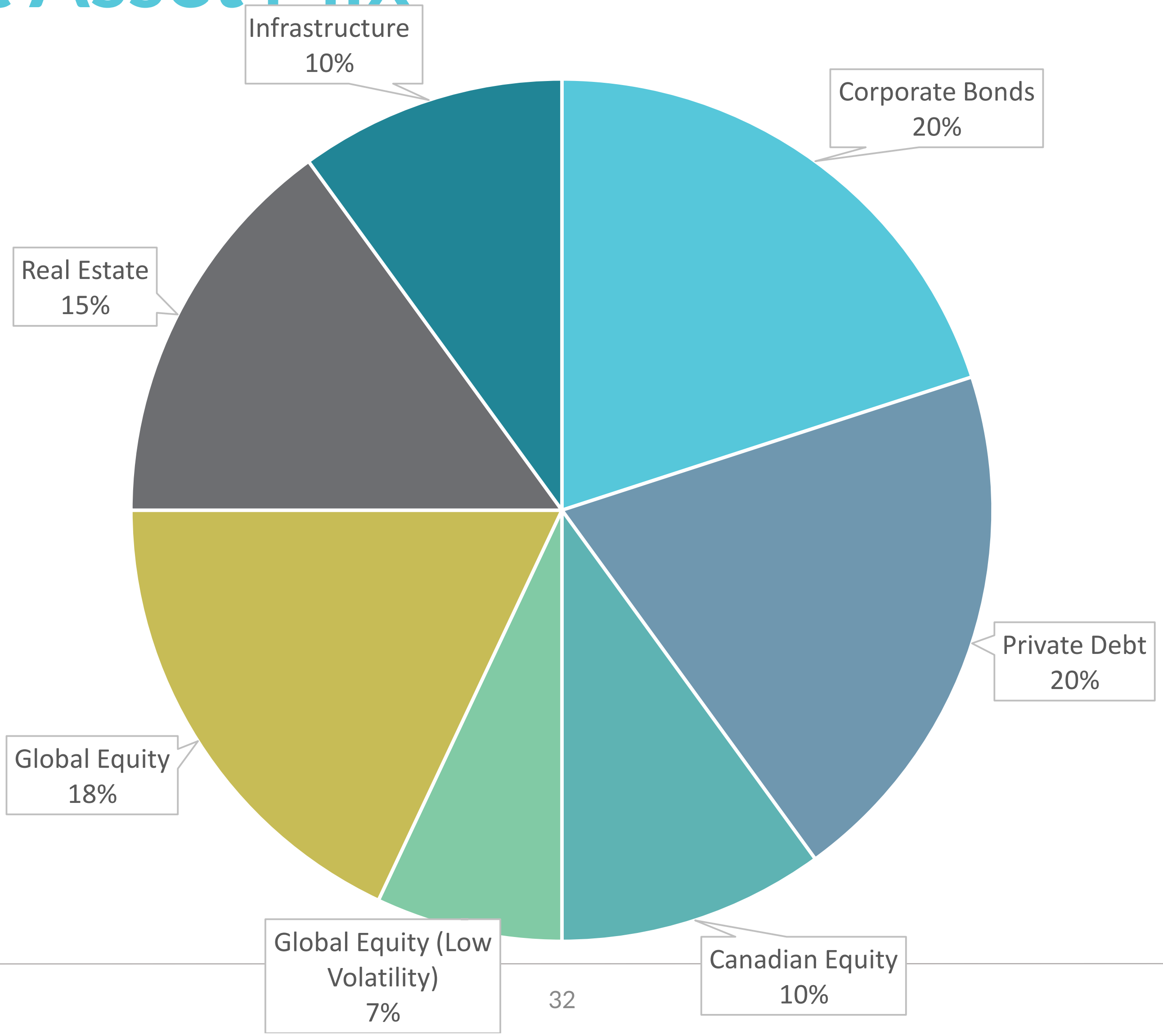
Basic Claims Target Asset Mix



RSR Target Asset Mix



EFB Target Asset Mix



New Asset Classes in RSR & EFB Portfolios

Asset Class Added	Rationale
Private debt Investment grade equivalent, primarily North American debt	Less liquid than public debt, resulting in an increased yield over public debt by an estimated 0.75%
Global Equities Includes developed market equities and emerging market equities	Offers better diversification than our previous Canadian & U.S. equity portfolio and a greater opportunity set for the equity manager to select high quality securities
Global Equities (Low Volatility) Diversified developed market equities with return volatility about 25% less than standard global equity benchmark index.	Offsets some of the volatility associated with global equity with minimal reduction in return

Implementation Update

October 2019

Implementation Update

Action	Date
Work with consultant on manager searches	Sep 2018 – Jan 2019
Recommend global equity managers and corporate bond manager to Investment Committee	February 2019
Review, negotiate & sign new manager contracts	Feb-April, 2019
Realize equity gains and transition Canadian equities into pooled funds	February 2019
Plan to allocate the commingled portfolio among the five new portfolios developed	March 2019
Split commingled portfolio into five new portfolios	May & June, 2019

Implementation Update

Asset Class	Date
Recommend private debt manager to Investment Committee	May 7, 2019
Review, negotiate & sign private debt manager contracts	May - July, 2019
Initial transfer to private debt manager	July 31, 2019
Final transfer to corporate bond manager	July 31, 2019
Corporate bonds fully invested	August 30, 2019
Rebalance Between Portfolios	September 30, 2019
Infrastructure Liquidation	Q4 2019/Q1 2020

The new investment strategy was substantially implemented by August 30, which is about 3 months behind the date originally expected due to the complexities of creating the new portfolios.

Interest Rate Forecast

October 2019

The Important of Accurate Interest Rate Forecasts

- Interest rates are one of the key inputs into our financial model, which is used to forecast our revenues and expenses and used to determine the rate indication for our application (ie: premiums charged to customers in the next rating year)
- Using an accurate forecast of future interest rates ensures that customers are charged the correct premium
- Updating our forecasts with interest rates as of September 30, 2019 reduces the time between making the forecast and beginning to charge the new rates to customers on March 1, 2020, resulting in a more accurate forecast
- Using Accepted Actuarial Practice (AAP) also reduces the impact of interest rates on premiums charged to customers

Rationale for Naïve Interest Rate

MPI's goal is to reduce pricing risk by using the most accurate forecast

- A "Naïve" forecast simply uses today's actual interest rate as the forecast of future interest rates
- Naïve interest rate provides a neutral, unbiased forecast
  - Going forward, the GoC 10 year bond could increase, decrease or remain flat
  - Naïve Forecast is a better predictor than 50/50 or SIRF
- Over the short term (1 to 1.5 years), the Bank of Canada overnight rate is not reliably predictive of the direction and magnitude of movements in the GoC 10 year bond rate.

Shadow Portfolios

October 2019

Shadow Portfolios

- Four shadow portfolios were developed with assistance from Mercer and input from the PUB and its advisors in accordance with PUB orders 11.17 and 11.19
- 2 portfolios for Basic Claims and 2 for Employee Future Benefits
- The portfolios contain allocations to MPI’s existing asset classes, plus real return bonds (RRBs) and private equity and also include the use of leverage (borrowing to invest)
- A representative of Mercer will attend the hearing on October 16 to answer questions related to the Shadow Portfolios

Conclusion

- Unique investment strategies are better aligned to the purpose and characteristics of the associated liabilities.
- Volatility of the Basic Claims portfolio will be reduced.
- The expected reduction in investment risk will have a positive impact on MPI's required capital.
- The new investment strategy is almost fully implemented, with the exception of illiquid asset classes (private debt, infrastructure and real estate).