

Risk Management Framework, Response to COVID, and 2021 Rebate

2021 General Rate Application



Agenda

Risk Management Framework

1. Focus on Critical Business Functions
2. COVID-19 Pandemic Risk Scorecards highlights

Response to COVID

3. Incremental costs related to COVID
4. Initiatives in response to the pandemic
5. Current savings on Claims Experience
6. Other Financial Impacts

2021 Rebate

7. Rebate Summary



1. Risk Management Framework

Focus on Critical Business Functions

Risk Scorecards Highlights



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Development of ERM Framework

ERM Policy

- Policy provides guidance on managing risk, and governance and reporting structures
- ERM Principles include:
 - Independent oversight on risk management;
 - Management of risk is a responsibility at all levels of the organization;
 - Follow the three-lines-of-defense approach;
 - Material risks and compliance issues are identified, measured, managed, monitored and reported;



Development of ERM Framework

Three Lines of Defence

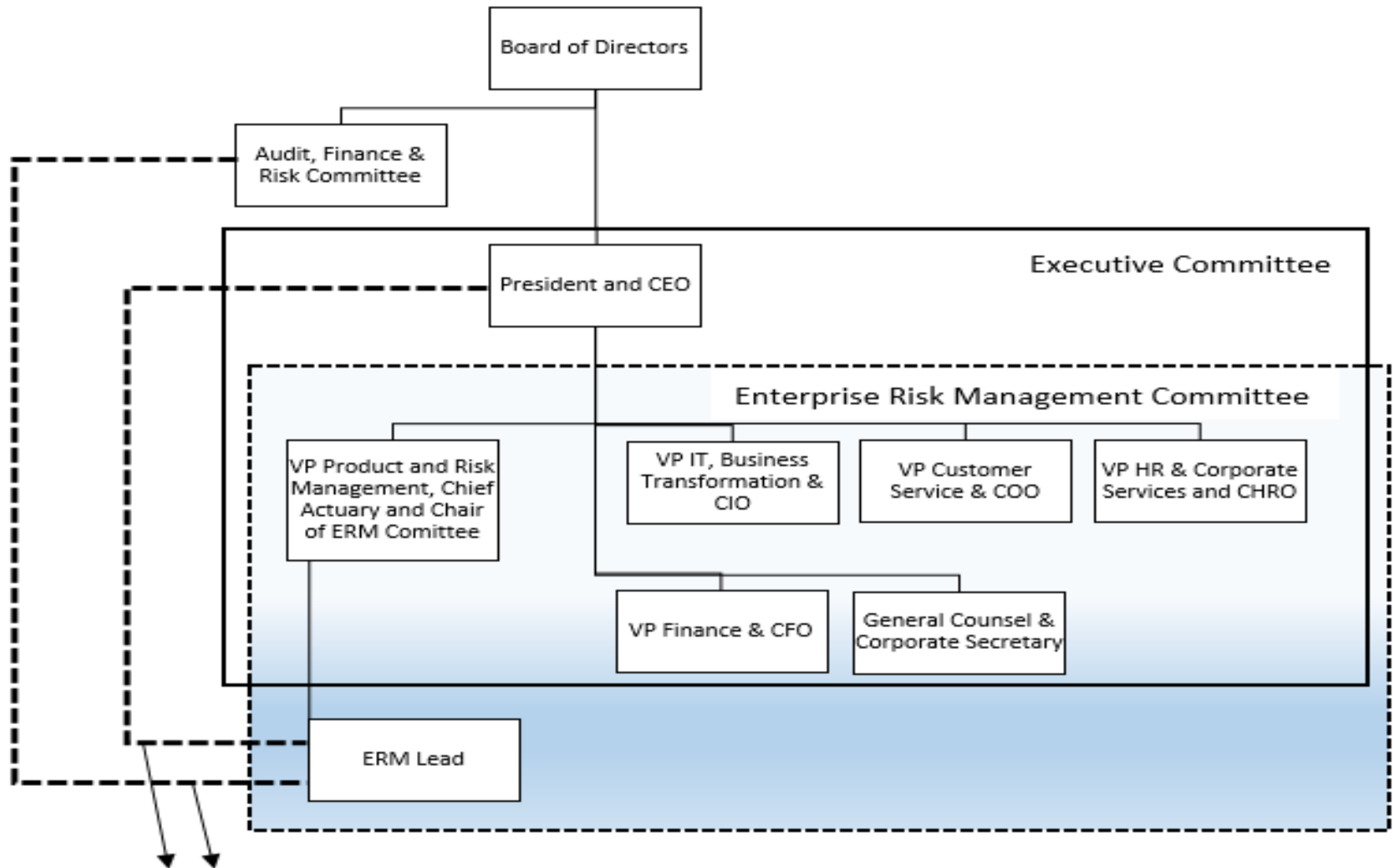
MPI operates a three lines of defence governance model

<u>First Line of Defence</u>	<u>Second Line of Defence</u>	<u>Third Line of Defence</u>
<p>Business units or functions that perform the day to day operations.</p>	<p>Risk and Compliance Management An independent unit or function that does not have responsibility for day to day operations.</p>	<p>Audit and Board A function or unit that provides independent assurance.</p>
<p>Are the primary risk takers, have primary responsibility for day-to-day risk management, to follow a systematic risk process.</p>	<p>They are responsible for maintaining the risk management framework and performing oversight and challenge to objectively assess first line activities.</p>	<p>Board sets risk appetite and provides oversight. Audit provides independent and objective assurance on the overall effectiveness of the risk governance framework (design and implementation).</p>



Development of ERM Framework

Risk Governance Structure



Dotted line indicates risk reporting structure of the lead of ERM to the President and CEO, and the Audit, Finance & Risk Committee

Development of ERM Framework

Risk Appetite Statement

- The Corporate Risk Appetite statement describes the types, amount and level of risk MPI is willing to accept.
- Risk appetite is an ongoing cyclical process.
- MPI Board of Directors approved a Corporate risk appetite statement for Corporate net income, Basic, Extension and SRE lines of business, investments and regulatory compliance



Development of ERM Framework

MPI Risk Appetite Statement

- 1. Corporate Net Income:**
 - Low overall appetite for net income volatility, which should not exceed +/- \$50M over 4 years relative to budget.
 - The 4 year net income volatility range is to be achieved by rate increases that are 2% or less.
 - One year net income should not fall to be less than -\$60M relative to budget, based on the 1-in-5 year scenario.
- 2. Basic and Extension**
 - MPI has no appetite to provide services outside of our legislated mandate.
 - Catastrophic claims exposure below or equal to \$50 million.
 - Low appetite for inaccurate estimation of policy liabilities with unfavourable PIPP runoff of no more than +/- 1.5%, which represents approximately +/- \$27M.
- 3. SRE**
 - No appetite for exposure to non-core commercial auto products and services.
 - No appetite for insuring companies that are located outside of Manitoba.
 - The maximum loss per occurrence for 3rd party liability and general liability is \$10M.
- 4. Investment Risk**
 - Basic claims interest rate risk must not exceed +/- \$10M of budgeted impact after non-recurring items per year.
 - Medium appetite for non-basic interest rate risk, with partial mismatch of assets and liabilities for the Extension/SRE/Employee Future Benefit portfolios.
 - Medium appetite to keep foreign currency exposure unhedged due to the diversified nature of the exposure, which represents approximately 10% of the total portfolio or \$323M.
 - No appetite for equity exposure in the Basic Claims portfolio. Medium risk appetite for unhedged equity exposure in RSR/Extension/SRE/Employee Future Benefits Portfolios.
- 5. Regulatory Compliance**
 - No appetite for any financial or non-financial breaches of regulatory compliance.



Development of ERM Framework

Reporting Top Risks

ERM risk scorecards on the top risks indicate risk scores, trend over time, risk treatment and risk treatment status

- Examples of top risks include: Failure of Major Project, External Partner Disruption, Major Business Interruption risk has been tracked

Major Business Interruption - COVID19 Pandemic Response

Managed response actions using the Corporate Incident Management Structure and Emergency Operations Centre as designed by the Business Continuity Program

- ~400 employees working from home in 2 weeks, 1,600 employees working from home within 4 weeks (representing approximately 85% of its ~1,890 employees)
- MPI Centre locations are shared with the Government of Manitoba to serve as drive-through testing sites for COVID-19



2. Response to COVID-19

Incremental costs related
to COVID

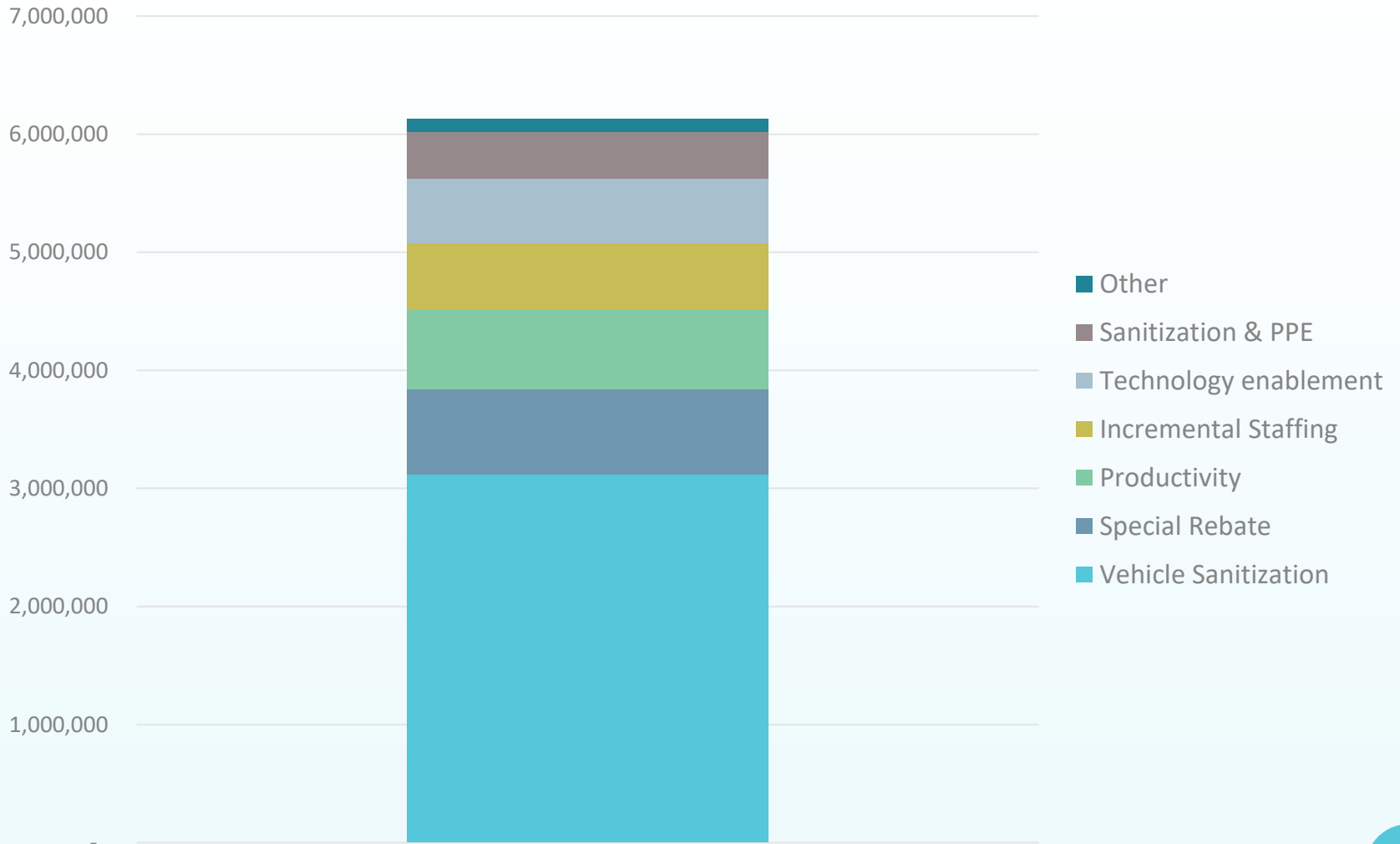
Current savings on
Claims Experience
& Other Financial Impacts



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Incremental Covid-19 Costs

YTD Through September 30, 2020



Savings related to COVID-19

YTD Through September 30, 2020

Salary & Benefits

\$5.8 million under budget due to an average of 142 vacancies throughout the fiscal year

Driver Education Program

\$1.7 million expense adjustment related to the commercial driving instructor program and Driver Education Instructor expenses

Advertising & Public Campaigns

\$1.4 million as discretionary campaigns were discontinued

Travel & Vehicle Expense

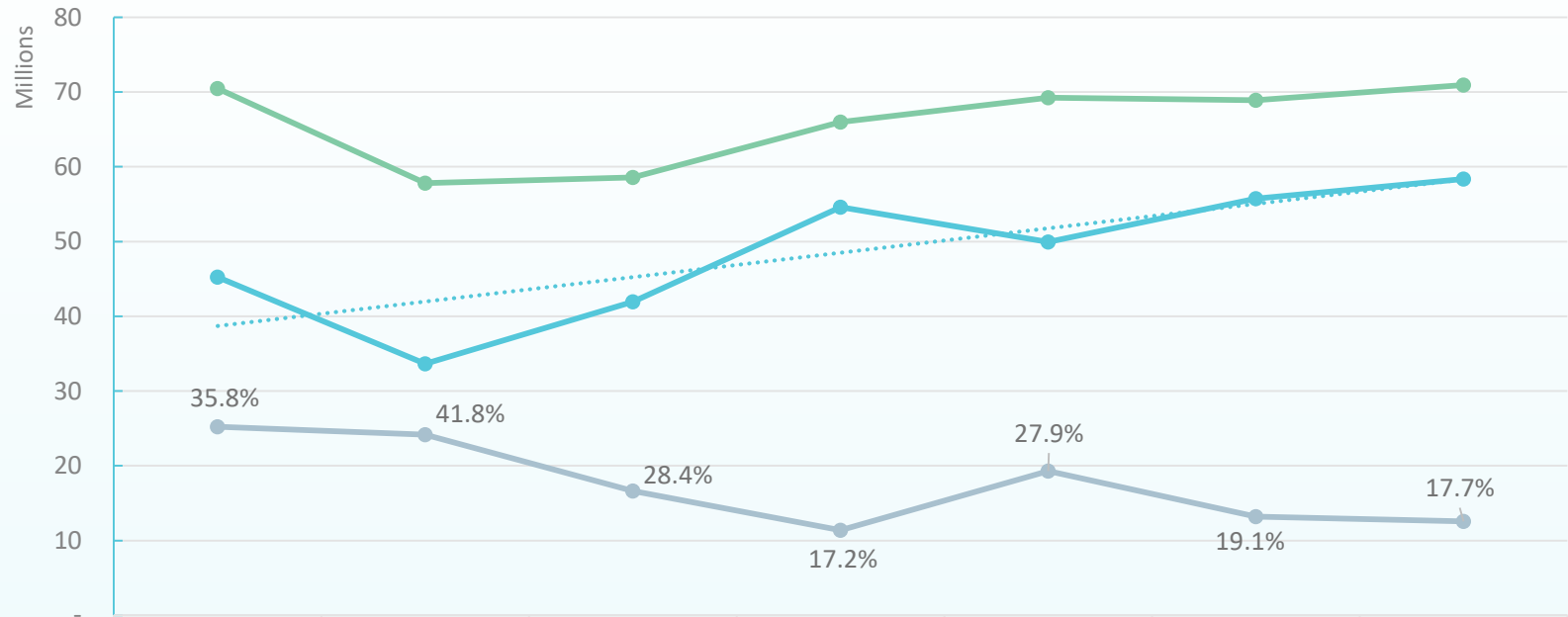
\$0.4 million as all non-essential travel is halted during pandemic



Direct Claims vs Budget

2021 Special Rebate Application Monthly Reports

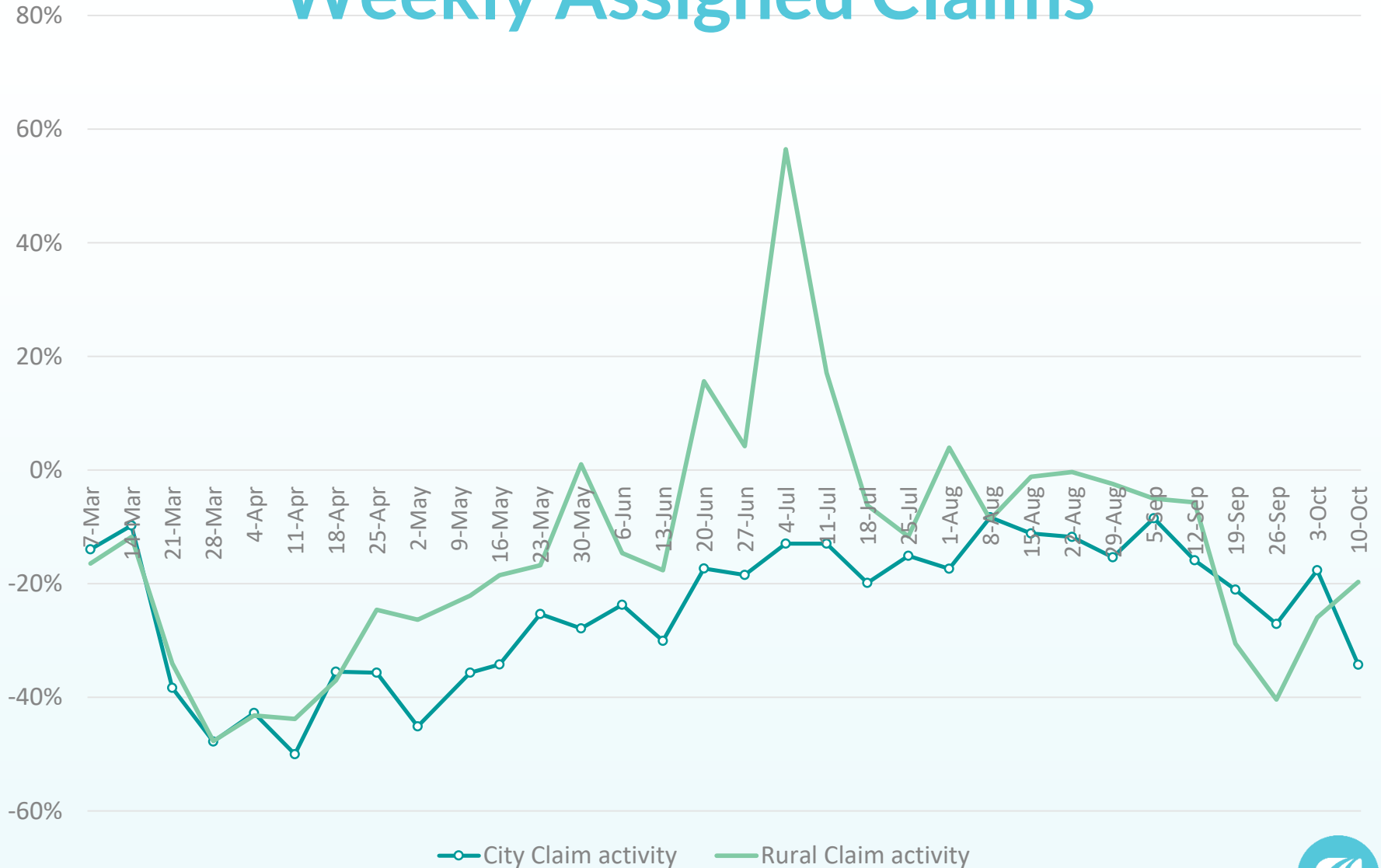
Favorable Claims Experience
(Budget vs. Actual)



	March	April	May	June	July	August	September
Budget	70,476,500	57,818,906	58,563,154	65,985,957	69,258,777	68,909,324	70,936,260
Actual	45,264,138	33,655,166	41,946,327	54,606,752	49,954,789	55,728,961	58,370,720
Difference	25,212,362	24,163,740	16,616,827	11,379,205	19,303,988	13,180,363	12,565,540



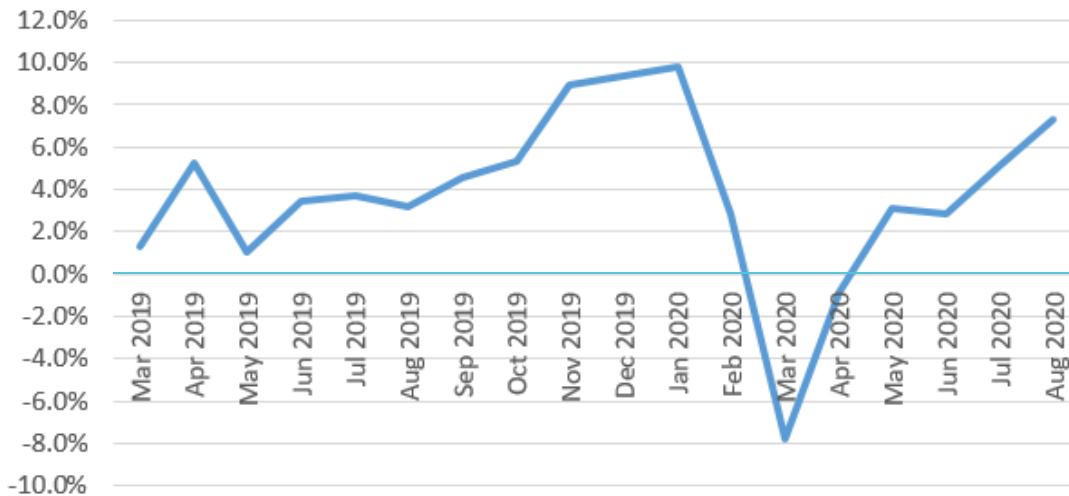
Year-over-Year Change in Weekly Assigned Claims



Equity Returns

- Cumulative equity returns were positive for 2019/20 (high-point of +9.8% cumulative return in January 2020), until the downturn in early 2020 (low-point of -7.8% cumulative return in March 2020)
- The downturn reversed in periods subsequent to March 31, 2020.

Total Equity Portfolio - Cumulative Return



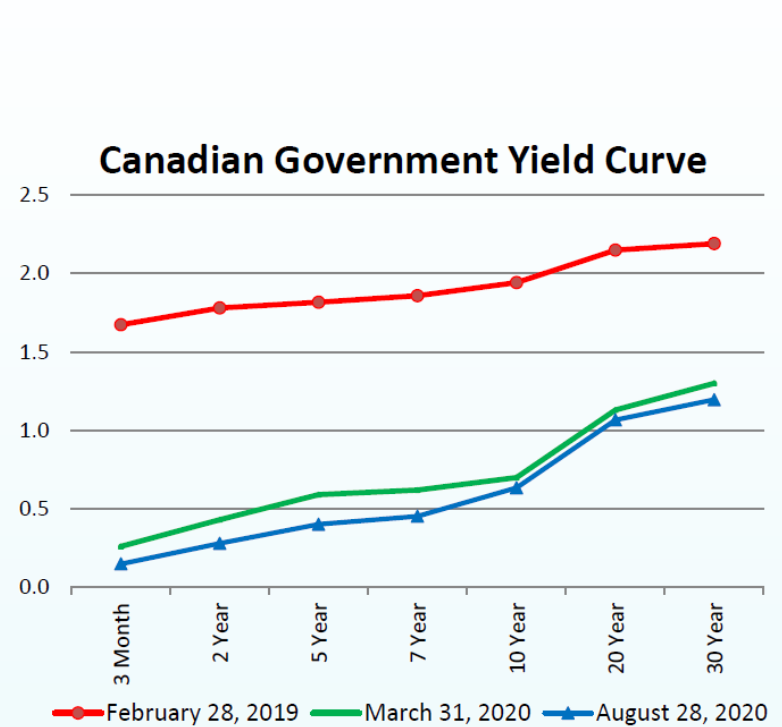
- April to August 2020: average monthly return of 3.1%.
- August 2020: monthly return of 2.0%, for cumulative return of 7.3%.



Asset-Liability Management

YTD Result Through August 31, 2020

Interest Rate Impact on Investments & Claims



3. Rebate

Summary Recap



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Rebate as an alternative to reduced premiums in the future

Strong year-end financial results

PART A

Extension

Excess capital held in MPI's *Extension* reserve at the end of the 2019/20 insurance year.

Fewer claims during the COVID-19 period

PART B

Basic

The actual and expected decrease in the number of claims for the period initial COVID-19 period of March 15–May 15, 2020.



Rebate Summary

Almost 700 thousand customers impacted

Week of May 25, 2020

Letter
rebate lower than \$10

24,698 customers

Cheque
Rebate of \$140 ~ \$160

649,037 customers

\$110 Million

Week of July 27, 2020

Letter
rebate lower than \$10

7,139 customers

Cheque
Average rebate of \$25

8,768 customers

\$218 Thousand



Thank You

End of Presentation

