Capital Management Plan (CMP), Rate Stabilization Reserve (RSR) and Compulsory and Extension Revision Project (CERP)

2021 General Rate Application

MANITOBA PUBLIC INSURANCE

Purpose of the Rate Stabilization Reserve (RSR)

Purpose of the RSR:

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

MPI's proposed Capital Management Plan is *always* managing rate volatility by taking predetermined steps toward the Basic 100% MCT target in every application and capping rate surcharges at +5%.

Purpose of the Reserves Regulation

- The regulation sets out the manner of determining the amount to be maintained by the corporation in its reserves for the purposes of the Act (MPICA) and restricts the use of any surplus reserve funds.
- The Reserves Regulation will hopefully bring an end to decades of debate on MPI's capital targets.
- MPI is following industry best practice in its use of the MCT. The selected Basic capital target of 100% MCT is the absolute minimum target for any P&C insurer in Canada. The target is not excessive.
- All Basic RSR funds remain in the Basic line of business.

Capital Management Plan

- One simple methodology to:

1. Achieve the purpose of the Rate Stabilization Reserve
2. Adjust RSR toward the Basic 100% MCT requirement in a structured and consistent manner from year-to-year

- The Capital Management Plan eliminates the requirement to have separate adjustments for investment income on the RSR, capital maintenance, one-time surcharges, and rebate cheques. All of these adjustments are rolled into one Capital Build or Release provision.

Components of the Capital Management Plan (CMP)

- Accepted Actuarial Practice (AAP) Ratemaking
- Capital Targets by Line of Business
- Capital Transfer Rules
- Capital Build or Release Provisions

Accepted Actuarial Practice

- No changes proposed to MPI's break-even rate setting methodology, which follows Accepted Actuarial Practice (AAP).
- Investment Income on the RSR should not be included in the AAP break-even rate.
- Investment Income on a RSR is a capital adjustment and is now embedded in the overall capital build/release provision.

Capital Transfers

- Transfers are now assumed to occur automatically when Extension the actual Extension Minimum Capital Test ratio > 200% at fiscal year end.
- Unlike past years GRA's, Extension capital transfers are now forecasted as part of the GRA.
- Capital transfers reduce or eliminate the requirement for capital maintenance and/or build provisions.

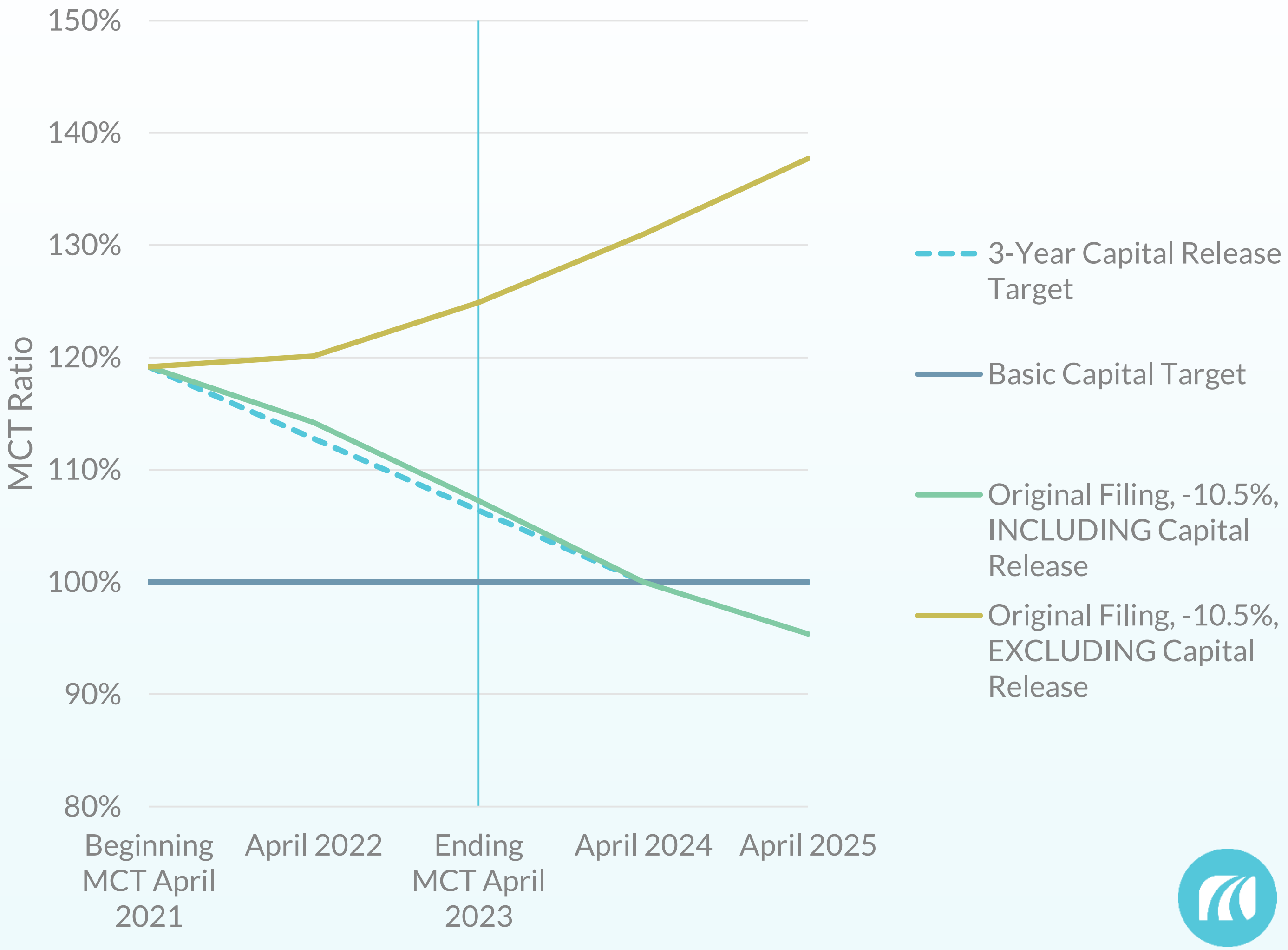
Capital Build or Release Provision

- Simple calculation → Get to 100% MCT in the required timeframe:
  - 5 years for a capital build
  - 3 years for a capital release

- Step 1: Determine the Basic MCT at the beginning of the rating period (i.e. April 1, 2021).
- Step 2: Calculate the Capital Build or Release Ratio
- Step 3: Calculate the Target MCT at the end of the rating period (i.e. March 31, 2023)
- Step 4: Compare the forecasted MCT to the Target MCT at the end of the rating period. Apply Capital Build or Release Provision <u>if necessary</u>.

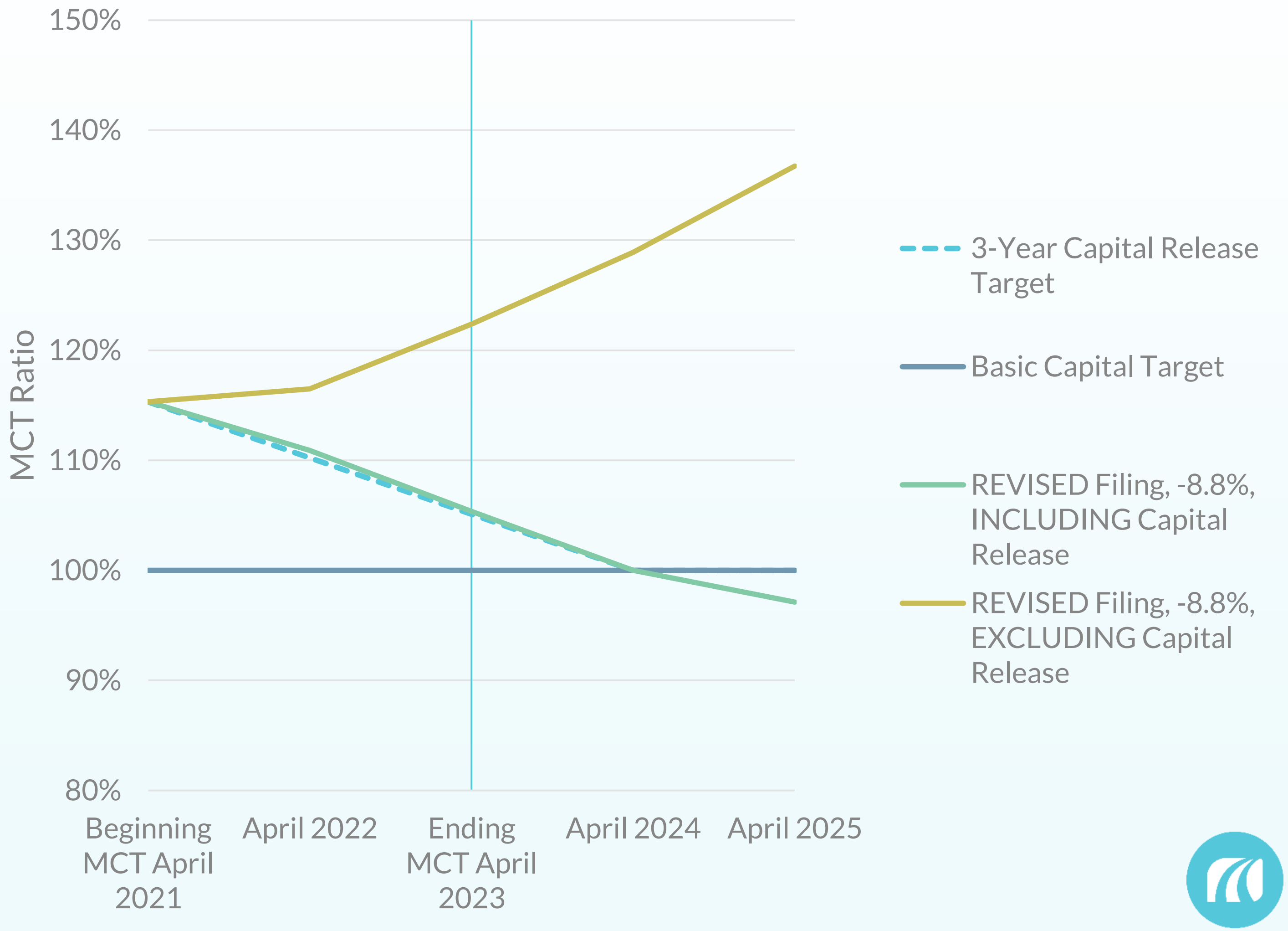
2021 GRA as filed June 17, 2020

- AAP: -2.5%
- CERP: -3.0%
- Incremental Capital Build/Release: -5.0%
- Total Rate Change: -10.5%



2021 GRA Amendment as filed October 9, 2020

- AAP: -0.8%
- CERP: -3.0%
- Incremental Capital Build/Release: -5.0%
- Total Rate Change: -8.8%



Modernizing Basic Autopac Coverage

Overview

- MPI is modernizing aspects of Basic and Extension insurance product coverages which have remained constant for the past 20 years. These changes intend to meet the evolving needs of customers by helping to provide more stable Basic rates, while also offering increased coverage options and greater flexibility. These changes are effective as of April 1, 2021.
    - Increasing Basic deductibles ($500 to $750 for passenger vehicles)
    - Increasing Basic Third Party Liability (TPL) minimum coverage from $200,000 to $500,000
    - Increasing the Maximum Insured Value (MIV) limit from $50,000 to $70,000 for all vehicles insured by Basic
    - Establishing new Autopac Extension reduced deductible options

- It is expected the product changes outlined above will result in a rate decrease (-3.0%) for Basic and a rate increase (+17.0%) for Extension. Taken together, the new product offerings will provide comparable coverage at comparable cost (i.e. rate neutral to customers who purchase the same coverage)

Modernizing Basic Autopac Coverage

Transition Plan

- MPI customers will be assigned coverage that is the most comparable to their existing, previously selected coverage
- Customers will receive a notification letter 45 days before their annual reassessment or renewal date, advising them of their assigned coverage
- Customers wanting to change their assigned coverage can choose to do so at their convenience by visiting a MPI Service Centre or Autopac agent at any point in the 45 days prior to their annual renewal or reassessment date
- Customers who do not make a change to their assigned coverage will have their policy coverages transitioned automatically on their annual renewal or reassessment date
- It is anticipated that this transitional approach will be seamless for most customers and will not significantly increase the volume of customer visits to brokers