

2021 General Rate Application

Closing Submissions

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November 3, 2020



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Agenda

Topics

1. Request Summary
2. COVID-19 Pandemic
3. Revenues & Expenses
4. Investments
5. Capital Management Plan
6. Project NOVA
7. Driver Safety Rating System
8. Vehicle for Hire
9. Motorcycle Major Class



Request Summary



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Request Summary

Historic Rate Application

- -8.8% overall rate indication
- Rates in effect for 12-month period (April 1, 2021 – March 31, 2022)
- Continuation of Capital Management Plan
- No changes to:
 - Miscellaneous Permits and Certificates
 - DSR-determined driver/vehicle premium discounts
 - Basic Autopac Service and Transaction Fees
 - Fleet Rebates and Surcharges



Request Summary

Breakdown of -8.8% Overall Rate Indication

AAP Breakeven	-0.8%
Product Review	-3.0%
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AAP Breakeven Required Rate Change	-3.8%
Capital Release	-5.0%
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Overall Required Rate Change	-8.8%



Request Summary

Rate Indication by Major Class

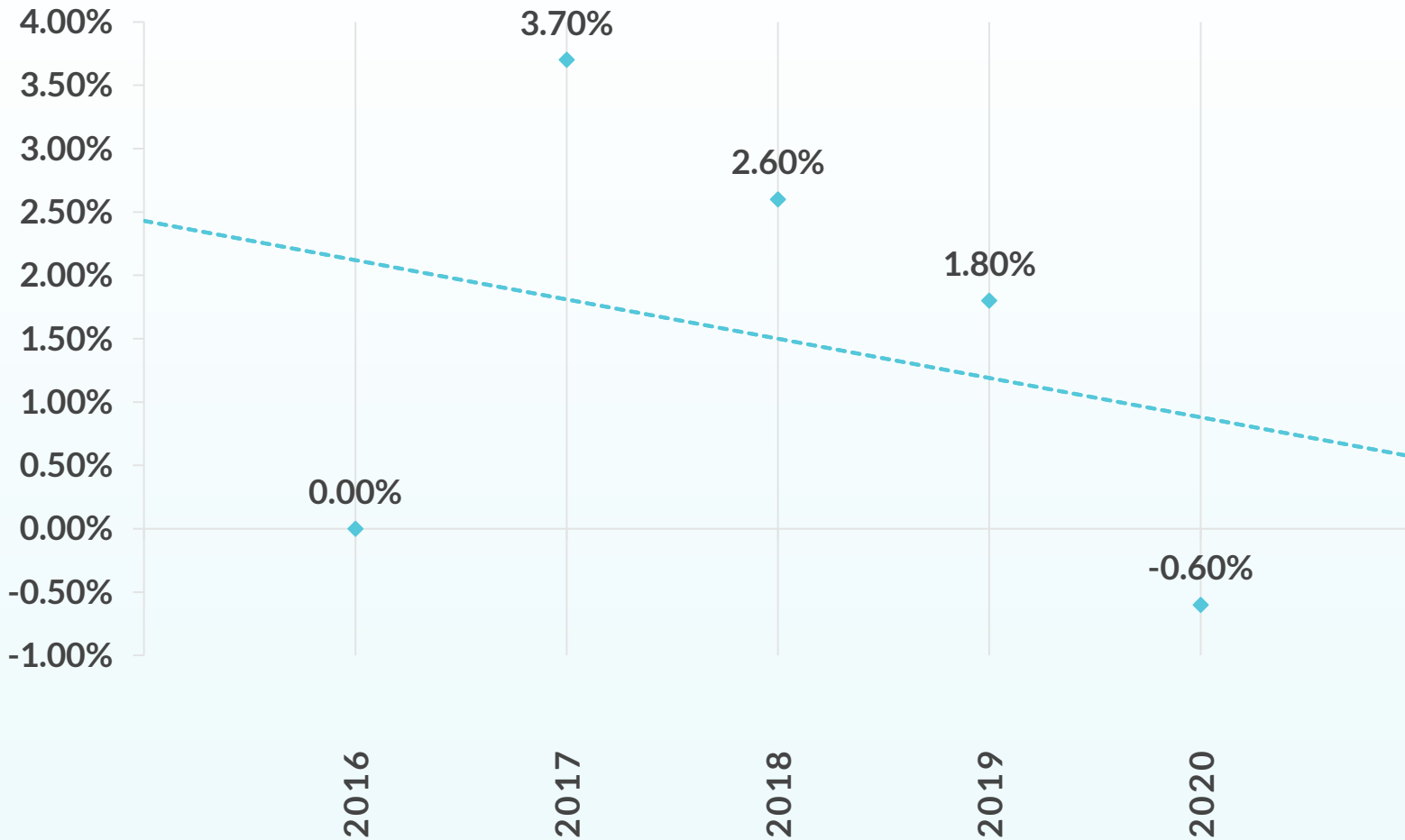
- 96.6% of vehicles will see their rates decrease or not increase
- ~100% of private passenger vehicles will see rates decrease

Major Class	Current Average Rate	Indicated Average Rate	Indicated Rate Change
Private Passenger	1,184	1,073	-9.4%
Commercial	828	811	-2.1%
Public	2,141	2,063	-3.7%
Motorcycles	847	887	4.7%
Trailers	77	68	-11.3%
Off-Road Vehicles	7	7	0.0%
Overall	905	826	-8.8%

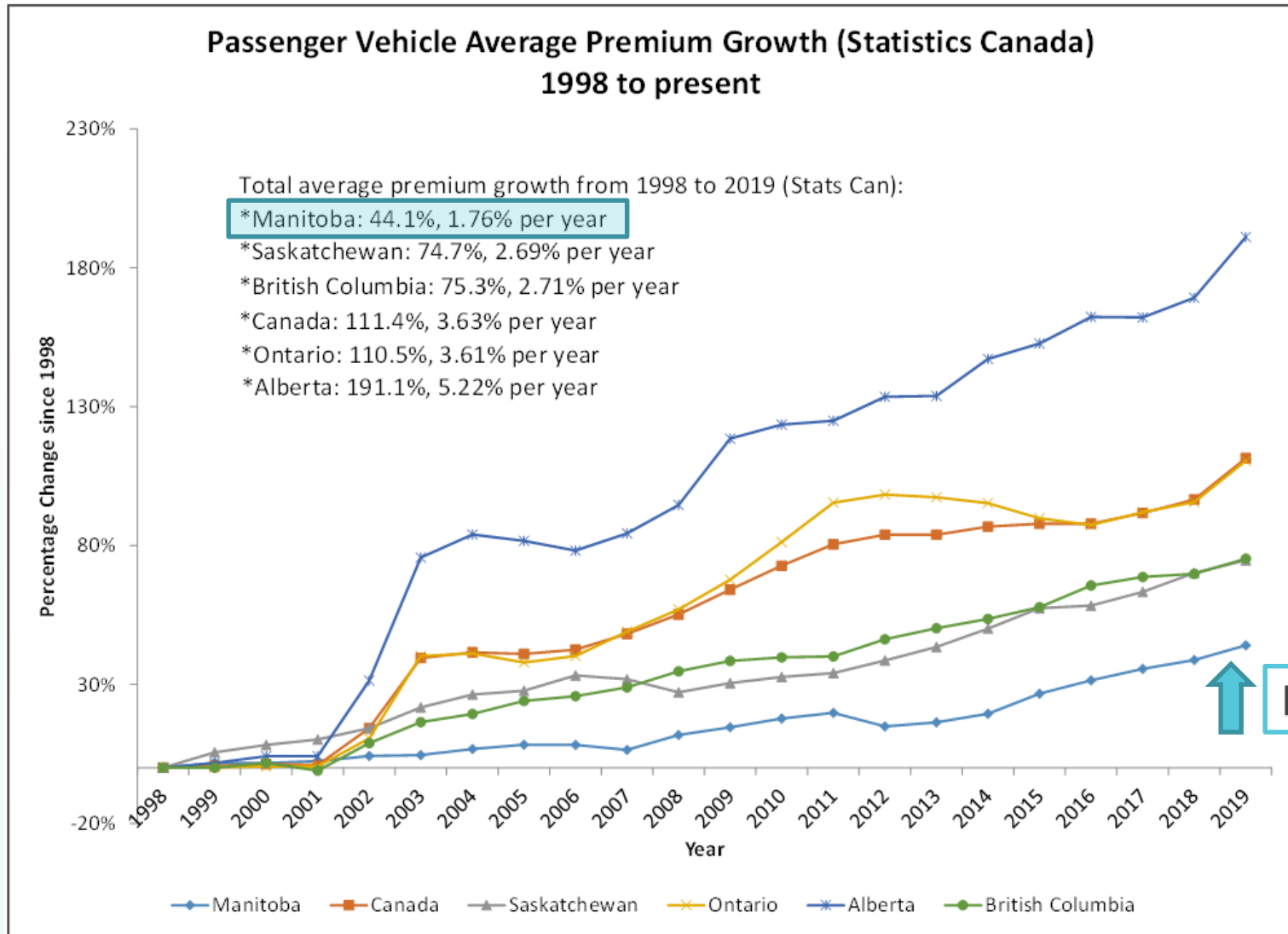


Request Summary

APPROVED RATES 2016 - 2020



Requested Summary



↑ MPI





COVID-19 Pandemic



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MPI was Prepared

- Enterprise Risk Management tracked risk (i.e. major business disruption)
- MPI implemented its Corporate Incident Management Structure and Emergency Operations Centre, as designed by the Business Continuity Program
- 85% of workforce (of ~ 1,890 employees) transitioned to remote working within 4 weeks of Provincial State of Emergency declaration
- Assistance to Province through provision of 3 MPI Service Centres for use as drive-through testing sites
- **+\$ 110m** returned to Manitobans in form of emergency rebates in May



MPI must Remain Positioned to Respond to Uncertainty

- What is Currently Known:
 - ~\$6m incremental costs, ~\$9.4m committed savings due to COVID-19
 - claims experience lower initially, now moving towards budget
 - claims costs likely to be less than original forecast (i.e. 2020 GRA)
- What is Currently Unknown:
 - timing, magnitude and impact on claims experience and financial markets of the imposition or lifting of future health restrictions
 - future interest rates changes
 - ultimate end date and a return to “normal” or a “new normal”
- MPI proposes a calm and steady approach going forward



Revenues & Expenses



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Revenues & Expenses

Forecasting Revenues

- Earned revenues for Basic are consistent with prior years
 - 92% motor vehicle premium
 - 6% driver premium
- MPI expects volume growth to decline this year due to COVID-19 (0.14%) with modest recovery in 2021/22 and thereafter (1.79%, 1.06% & 1.06%)
- MPI expects vehicle upgrade factor increases to be slightly lower next year (2.47%) with a return to “normal” levels beginning in 2022/23 (2.53%)
- COVID-19 may move more drivers up the DSR Scale
- Revenue forecasting difficult in light of COVID-19 but current revenue projections are close to forecasts and therefore reasonable

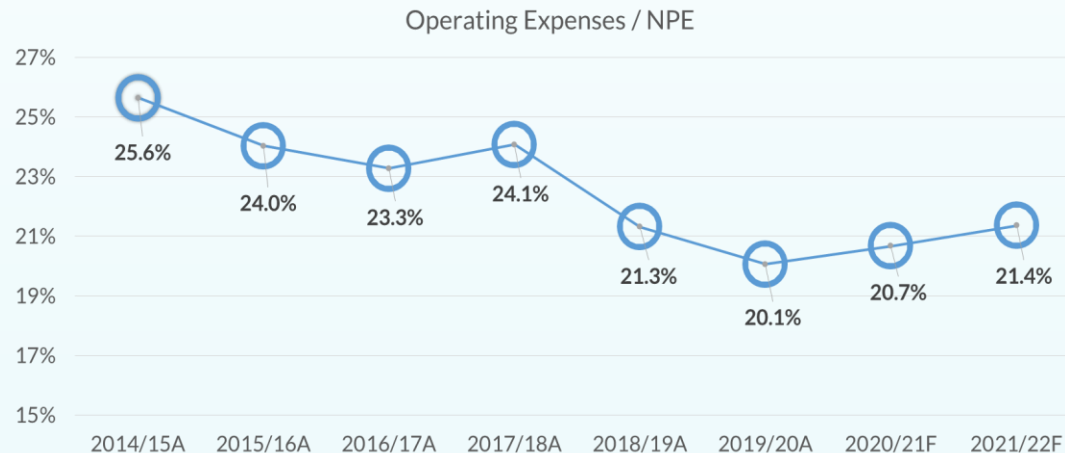


Revenues & Expenses

Prudently Managed Expenses

- MPI expects overall Basic expenses to be -1% under 2020 GRA (\$3.7m)
- Share of premiums needed to run Basic regularly below FY 2014/15 levels
- Recent increase result of reclassification of claims expenses (otherwise be at ~20.0% or similar to percentage from FY 2019/20)
- Reinsurance protects MPI against catastrophes or serious bodily injury

Combined Expense Ratio



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MPI Exhibit #85

Investments



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Investments

MPI has low to no Appetite for Investment Risk

- Portfolio risk level is determined by its purpose
 - Basic claims interest rate risk must not exceed +/- \$10m of budgeted impact after non-recurring items per year
 - No appetite for equity exposure in Basic Claims portfolio
 - Medium appetite for equity exposure in RSR, Extension, Special Risk Extension and Employee Future Benefits portfolios
- Goal is to reduce premium/rate volatility by ensuring that MPI has capital available to pay claims
- PUB Order No. 159/18:
 - *“It appear to the Board that the Corporation has selected from a range of reasonable options for its portfolios as a result of the Mercer ALM Study.”*



Investments

MPI ALM Strategy Approaching full Implemented

- Private debt only asset class not fully funded (awaiting capital calls)

Sep-20

(in \$ Million)	Consolidated MV + AI	Total current	Basic current	RSR current	SRE current	EXT current	EFB current
Cash, Short Term, & FRNs	\$ 183.9	5.1%	3.0%	17.8%	9.7%	4.9%	0.6%
Fixed Income							
Provincial Bonds	\$ 1,353.6	37.9%	53.6%	19.7%	19.5%	17.4%	
Corporate Bonds	607.7	17.0%	19.4%	9.6%	9.2%	9.6%	19.4%
Non-Marketable Bonds (***)	530.3	14.8%	23.9%				
Private Debt	154.7	4.3%		5.8%	8.3%	8.8%	19.0%
Total Debt	\$ 2,646.4	74.1%	97.0%	35.1%	37.0%	35.9%	38.3%
Public Equities							
Canadian	138.9	3.9%	0.0%	11.5%	11.5%	12.3%	7.8%
Global	225.4	6.3%	0.0%	15.9%	13.6%	15.6%	18.9%
Global Low Vol	105.1	2.9%	0.0%	7.7%	8.6%	11.1%	6.3%
Total Public Equities	\$ 469.4	13.1%	0.0%	35.1%	33.8%	38.9%	33.1%
Alternative Investments							
Canadian Real Estate (*)	\$ 163.8	4.6%	0.0%	8.2%	13.2%	13.8%	14.7%
Venture Capital	0.3	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%
Infrastructure (**)	109.0	3.1%	0.0%	3.8%	6.2%	6.5%	13.3%
Total Alternative Investments	\$ 273.1	7.6%	0.0%	12.0%	19.5%	20.3%	28.0%
Total Assets:	\$ 3,572.8	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(*) CityPlace at appraised value

(**) Infrastructure based on latest valuations from fund managers

(***) MUSH at book value



Investments

MPI Investment Strategy Effective at Mitigating Risk

- All portfolios matched or outperformed their benchmark returns over the **12 month** period (April 1, 2019 to March 31, 2020)

	Basic Claims*	RSR	EFB
Portfolio	4.4%	-0.1%	0.3%
Transitional Benchmark	4.4%	-0.6%	-0.4%
Value Added	0.0%	0.5%	0.7%

*MUSH bond returns calculated using implied market values

- Actual Return for Basic Claims Portfolio over **13 month** period was 6.9% (March 2019 to March 2020)



Investments

MPI Investment Strategy Effective at Mitigating Risk

- Performance of Basic, RSR, and EFB from March 31 to August 31:
 - **Equities**
 - ▶ Public: +16.6%
 - ▶ Private: +2.7% (infrastructure), +1.8% (real estate)
 - **Fixed Income**
 - ▶ Decreasing bond and debt yields
 - ▶ Public: +\$73.5m (corporate bonds), +\$79.6m (provincial bonds)
 - ▶ Private: +20.6m (mid + long-duration private debt fund)



Investments

Interest Rates

- Impact of interest rate changes on total fixed income assets:
 - (Mar 31-Aug 31) -\$12.7m or \$8.3m worse than budget
- Basic Claims portfolio hedges against interest rate forecasting risk
- Forecasting:
 - Naïve forecast (neutral, unbiased) best estimate
 - Naïve remains better predictor than 50/50, SIRF



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MPI Exhibit #85

Capital Management Plan



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Capital Management Plan

Back to Basics: How the CMP Works

- 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 if necessary.
- “If, at each fiscal year end the Extension MCT ratio is +200%, MPI will transfer capital from Extension to Basic until the ratio is 200%”



Capital Management Plan

Effectively Managing Rate Volatility

- 2-year pilot project in its inaugural year
- Application this year results in 5.0% rate decrease with 115% MCT Ratio
- Additional capital releases likely in future years
- MPI did not transfer excess capital (\$52m) from Extension Reserve to Rate Stabilization Reserve
 - COVID-19 rebate appropriate response to extraordinary emergency
 - Present conditions are different – additional rebates are not desirable
 - PUB obviously cannot properly assess CMP if disregarded
 - May be “kinks” to iron out – improvements to make without fettering discretion



Project NOVA



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Project NOVA

Business Transformation vs. Replacing an Atari

- No longer strictly a “computer project”
- Clear case for adapting business processes to expand customer options and meet their demand
- COVID-19 highlights the need and importance of systemic change
- NOVA is a unique project because MPI is a unique company
- NOVA is also about:
 - focusing on needs of the customers, partners and staff
 - adopting industry best practice where possible
 - becoming “Lean” and avoiding highly-customized applications



Project NOVA

Going Slow to Go Fast

- Timeline adjusted to add time to Program Planning & Readiness Phase
- 1 month delay resulting from COVID-19 Pandemic
- Now scheduled for completion by early 2024
- Vendors and System Integrators selected or in the process of being selected for all 4 platforms (i.e. P&C, DVA, Application, Integration)
- Launched using Waterfall approach, but delivering via hybrid-Agile approach which adopts best of both approaches to manage risk



Project NOVA

Project Nova – Roadmap Summary

Release	Original Start Date	Original End Date	Revised Start Date	Revised End Date	Delta
Planning & Readiness	January 2019	March 2020	January 2019	January 2021	+ 10 months
DVA Modernization	July 2020	April 2022	January 2021	April 2023	+12 months
P&C Commercial Insurance Modernization	April 2020	November 2021	January 2021	March 2022	+ 4 months
Personal Insurance Modernization	December 2020	April 2022	April 2022	April 2023	+ 12 months
Claims Modernization	May 2022	December 2023	July 2022	November 2023	-1 month
Customer Self Service initial Launch (e-communications)	September 2020	October 2021	N/A	N/A	N/A
Customer Self-Service Insurance Renewal	November 2021	January 2023	January 2021	July 2023	+6 months
Customer Self-Service Insurance, Registration, DVA transactions	November 2021	December 2023	January 2021	July 2023	-6 months



Project NOVA

NOVA is not “PDR 2.0”

- Business plan based on Avasant and Deloitte advice
- Value Management Office to provide ongoing financial analysis
- Information from Gartner, PwC, Canadian companies and customers
- In-depth independent oversight of Governance provided by PwC
- Monthly reporting to Technology Committee of MPI Board
- Controls and vendor assistance in place to avoid over customization
- Lessons learned from rollouts of Mitchell and Fineos applications



Business Case Re-Baseline Exercise

- Includes sensitivity testing as well as analysis of the assumed costs and benefits of the project
- Includes review of:
 - Costs, Vendor Contracts, Project Delays, Contingency, Savings Assumptions
- \$12m in unanticipated licencing costs highlights need for vigilance
- There will be “puts” and “takes” accounted for in updating NPV
- Some assumptions (i.e. FTE Savings) will likely stand
- Contingency will likely be adjusted downward



Driver Safety Rating



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Driver Safety Rating

Pricing Examination – Vehicle Premium Discount

- MPI presented PUB with its pricing examination of existing Registered Owner Model
- Owners at the top of the DSR Scale subsidize drivers at the bottom (not revenue neutral)

DSR	Discount %		
	Indicated	Current	Variance
15	57.6%	33.0%	24.6%
14	47.5%	30.0%	17.5%
13	46.0%	29.0%	17.0%
12	44.2%	28.0%	16.2%
11	42.2%	27.0%	15.2%
10	39.8%	26.0%	13.8%
9	37.2%	25.0%	12.2%
8	34.4%	25.0%	9.4%
7	31.2%	25.0%	6.2%
6	27.8%	20.0%	7.8%
5	24.1%	15.0%	9.1%
4	20.1%	15.0%	5.1%
3	15.8%	10.0%	5.8%
2	11.2%	10.0%	1.2%
1	6.3%	5.0%	1.3%
0	0.0%	0.0%	0.0%



Driver Safety Rating

Primary Driver Model

- While Primary Driver Model may be more actuarially sound, any change must:
 - be approved by Government (not a guarantee even if recommended)
 - not needlessly interfere with implementation of Project NOVA
- MPI decision on DSR projected for mid-to-late 2021 (direction-dependent)
- MPI to collaborate with stakeholders and educate customers



Vehicle For Hire



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Vehicle for Hire

Taxicab VFH Rates & Incentives

- Loss experience well established over many years (mature)
- More data (i.e. distance travelled) useful but collecting may be difficult
- Effectiveness of DSR
 - Too early to assess impact on Taxi VFH class
 - MPI already reviewing ways to improve system, including consideration of the primary driver model
- Fleet Program not a reasonable alternative
 - Potential for extreme volatility (33% rebate in Y1, 50% surcharge in Y2)
 - Additional MPI resources required to administer
 - Number of corporate taxi registrants unclear but likely small in size



Vehicle for Hire

Private Passenger VFH Rates

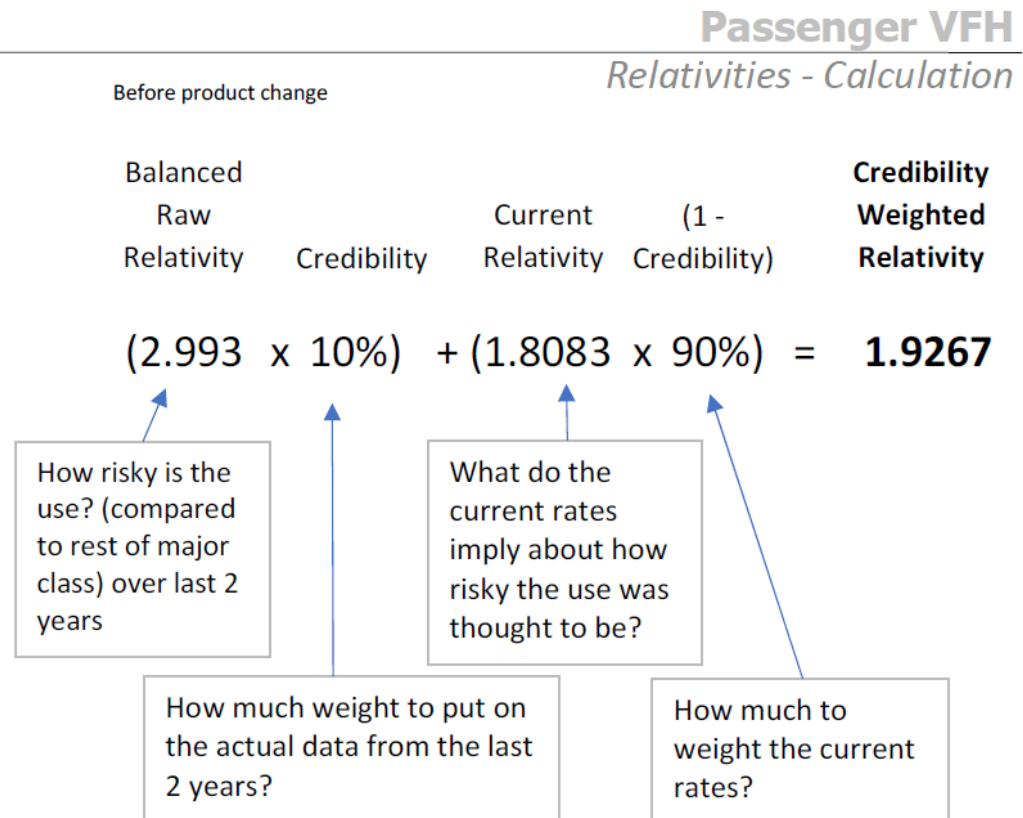
- Taxi Coalition advocates for 56% rate increase of a competing class
- Private Passenger VFH class not represented in this hearing
- Class established in 2018, only 2 years of claims experience
 - Many possible explanations for high loss ratios in these years
- Small fleet size
 - 452 (actual size) vs. 60,000 (size MPI requires to ensure largest insurance use – All Purpose Passenger Vehicle is at least 95% credible)
 - to avoid volatility and errors, actual experience of small fleet assigned minimum credibility (10%)
 - TC did not question MPI Actuary on appropriateness of proposed 40% credibility weight but argues inappropriate to use 10%



Vehicle for Hire

Credibility Weighting Basics

- TC 40% proposal is arbitrary, solely to increase rates to maximum permitted under capping rules
- MPI 10% proposal is based on proven methodology dictated by sample size



Vehicle for Hire

Private Passenger VFH Rates

- The “cross-subsidization” myth
 - RSR absorbs bulk of temporary high loss ratios, not ratepayers
- Loss ratio higher than desired but ratemaking methodology applied to all insurance uses (including taxis) should be given opportunity to work
- VFH Insurance Model is Under Review
 - MPI to enhance framework/pricing structure to meet customer needs
 - MPI will engage with all stakeholders (existing vs. new model)



Motorcycle Major Class



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Motorcycle Major Class

Unique Vehicles Uniquely Affected

- Drivers of rate increase:
 - PIPP % of total loss costs
 - Changes in new money yield
 - Separation of serious loss development factors
 - Increase in forecasted overall claims costs
 - Low upgrade factor

	Private Passenger	Motorcycles
PIPP % of total loss costs	30.6%	92.6%
Required rate change @ NMY of 2.50%	-10.7%	3.2%
Required rate change @ NMY of 1.94%	-9.3%	6.9%
Variance from the change in NMY	1.4%	3.7%



Motorcycle Major Class

Motorcycle Rates Already Comparatively Low & Stable

Figure BMK- 3 Motorcycle Rates Comparison Charts by Driver Profile (Winnipeg, Calgary, Regina and Toronto)

Line No.	21 year old male claims and conviction free						
	Jurisdiction	2015	2016	2017	2018	2019	2020
1	Winnipeg	\$1,249	\$1,093	\$1,057	\$1,118	\$1,194	\$1,300
2	Calgary	\$2,427	\$2,427	\$2,427	\$2,427	\$2,218	\$2,315
3	Regina	\$2,134	\$2,134	\$2,134	\$2,134	\$2,134	\$2,339
4	Toronto	\$2,655	\$2,570	\$2,327	\$2,392	\$1,980	\$2,180
5							
	50 year old male claims and conviction free						
	Jurisdiction	2015	2016	2017	2018	2019	2020
6	Winnipeg	\$994	\$879	\$850	\$898	\$958	\$1,042
7	Calgary	\$1,053	\$1,053	\$1,053	\$1,053	\$1,626	\$1,696
8	Regina	\$1,906	\$1,906	\$1,906	\$1,906	\$1,906	\$2,088
9	Toronto	\$1,728	\$1,585	\$1,377	\$1,395	\$1,224	\$1,076
10							
	50 year old male; One at fault claim in the last year and claims and conviction free prior to that						
	Jurisdiction	2015	2016	2017	2018	2019	2020
11	Winnipeg	\$1,092	\$962	\$931	\$984	\$1,050	\$1,142
12	Calgary	\$1,267	\$1,267	\$1,267	\$1,267	\$1,748	\$1,823
13	Regina	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,192
14	Toronto	\$4,237	\$4,209	\$3,701	\$3,877	\$3,721	\$3,807
15							
16	2020 rates are based on the most commonly registered touring motorcycle in Manitoba, the 2014 Harley Davidson						
17	FLHTK ELECTRA GLIDE ULTRA LTD , \$500 collision deductible, \$500 comprehensive deductible, \$2 million third-party						
18	liability, and three driver profiles.						
19							
20							
21							



Motorcycle Major Class

Relief Sought by CMMG is Shortsighted

- Basic Claims portfolio be adjusted to include growth assets
 - ALM Strategy only in effect for 14-months
 - Effect of including equities would raise capital requirements
 - Requires risk appetite that MPI Board of Directors has rejected
 - See SGI example (\$600m required to achieve 100% MCT)
- Alternatively, separate portfolio designed for motorcycle class
- Who pays when things go bad?



All of which is respectfully submitted.

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