

October 12, 2021

MPI Exhibit #41

# Financial Forecast Update

## Revenues and Expenses

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# Agenda

## Financial Forecast Update

1. Key Forecast Changes vs. 2022 GRA
2. Impact on Rate and Rebate Application
3. 2022/23 Statement of Operation – Update vs. Initial Application

## Revenues

4. Components comprising premium revenue
5. Growth trends

## Expenses

6. Key Financial Update
7. Adjusted for COVID-19 Impacts in 2021/22
8. Expenditure Forecast
9. Salary Expenditures



# Financial Forecast Update

Key Forecast Changes

COVID-19 Impacts

Interest Rate forecast

Capital and Expense forecast

Rate and Special Rebate Update

2022/23 Statement of Operations Update



# Key Forecast Changes versus 2022 GRA

1. Updated 2021/22 COVID-19 assumptions
2. Updated 2021/22 net income projections
3. Use of available July 31, 2021 actual financial results
4. Updated capital and expense forecasts
5. Updated claims forecast including finalized repair negotiation impacts
6. Use of August 31 interest rates
7. Update projected rebate amount



# 2021/22 COVID-19 Assumptions

## Collision frequency levels

- **Initial Assumption** (original 2022 GRA Submission):
  - Return to normal by October 1, 2021
- **Updated Assumption** (2022 GRA Rate Update):
  - September/October 2021 = **20%** below normal
  - November/December 2021 = **15%** below normal
  - January/February 2022 = **10%** below normal
  - March 2022 = **5%** below normal
  - Return to normal (0% below normal) by **April 1, 2022**



# 2021/22 COVID-19 Assumptions

## Assumptions based on various factors including:

- Expected return to work plans for Government and MPI to commence in the new year
- Correspondence with ICBC and SGI (both assuming collision frequency returns to normal in 2022/23)
- Current state of case counts and potential fourth wave at time of COVID-19 assumption preparation
- Observed year to date experience as at the end of August and first week of September. Collision frequency continues to be favourable (i.e. +20% below claims frequency)



# Increase in the Rebate Projection

(\$ millions)	2022 GRA	Rate Update Forecast	Change
Basic Rebate - 2020/21	155	155	-
Basic Rebate - 2021/22	47	180	133
<b>Total Rebate Expected</b>	<b>\$202</b>	<b>\$335</b>	<b>\$133</b>



# AAP Basic Rate Change – Original vs. Updated

	2022 GRA	Rate Update Forecast	Change
<b>AAP RI</b>	<b>-2.8%</b>	<b>-1.2%</b>	<b>1.6%</b>

- **Original AAP indication (March 2021).....-2.8%**
  - Change in rate making discount rate..... 0.3%
  - Change in expenses.....1.2%
  - Change in claims incurred.....0.1%
- **Revised AAP indication (October 2021).....-1.2%**
- **New Money Yield:**
  - March 31, 2021.....2.46%
  - August 31, 2021.....2.32%





## 2022/23 Expenses - Operating Expenses changes 2022 GRA submission

(\$M's)	2022 GRA Update	2022 GRA Initial	Change B/(W)
Claims Expenses	175.6	170.5	(5.1)
Operating Expenses	159.2	146.5	(12.7)
Road Safety Expenses	14.5	15.3	0.8
Regulatory/Appeal Expenses	4.6	4.6	0.0
<b>Total Corporate Expenses</b>	<b>353.9</b>	<b>336.9</b>	<b>(17.0)</b>

### Operating Expenses higher than 2022 GRA submission due to:

- Budget cycle completion timing change (update based on completed 2022/23 Budget cycle)
- Use of Lean Portfolio Management (LPM) initiatives (majority of 2022/23 budget increase)
- Increased data processing costs due to ongoing initiative costs (mainly licensing /subscription)
  - As cloud adoption continues, higher expense costs expected earlier as IT services procured on the cloud can not be capitalized (per IAS 38)



# 2022/23 Capital Budget – Updates for GRA

(\$M's)	2022 GRA Update	2022 GRA Initial	Change B/(W)
Nova Project (Implementation costs)	26.8	26.2	(0.6)
Technology Risk Management	2.25	4.0	1.75
Information Security Maturity	0.6	.04	(0.6)
<b>Deferred Development Initiative Capital</b>	<b>29.6</b>	<b>30.2</b>	<b>0.6</b>
City Place Space Plan	6.9	6.9	-
City Place (non-recoverable)	15.2	-	(15.2)
City Place Tenant Fit Ups Buildings	9.4	-	(9.4)
City Place (recoverable)	2.3	12.9	10.6
Other Admin Capital (equipment, DP)	-	0.3	0.3
	0.8	1.1	0.3
<b>Total 2022/23 Capital Budget</b>	<b>64.2</b>	<b>51.4</b>	<b>(12.8)</b>



## 2022/23 Statement of Operations

### Update vs Initial – Basic – Net income change

(\$M's)	2022 GRA Update	2022 GRA Initial	Change B / (W)
<b>Revenue</b>	<b>1,149.3</b>	<b>1,144.9</b>	<b>4.4</b>
Claims Incurred	906.6	904.9	(1.7)
Interest rate impacts - Claims	16.2	11.7	(4.5)
Claims Expense	152.7	147.7	(5.0)
Road Safety/Loss Prevention	12.5	13.0	0.5
<b>Total Claims Costs</b>	<b>1,088.0</b>	<b>1,077.3</b>	<b>(10.7)</b>
<b>Expenses</b>			
Operating	83.8	76.1	(7.7)
Commissions	48.1	48.0	(0.1)
Premium Taxes	34.1	33.9	(0.2)
Regulatory/Appeal	4.6	4.6	-
<b>Total Expenses</b>	<b>170.6</b>	<b>162.6</b>	<b>(8.0)</b>
<b>Underwriting Income (Loss)</b>	<b>(109.3)</b>	<b>(91.1)</b>	<b>(18.2)</b>
Net Investment Income	99.2	99.2	-
Interest rate impacts - INV	0.9	0.5	0.4
<b>Net Income (Loss)</b>	<b>(9.2)</b>	<b>4.6</b>	<b>(13.8)</b>



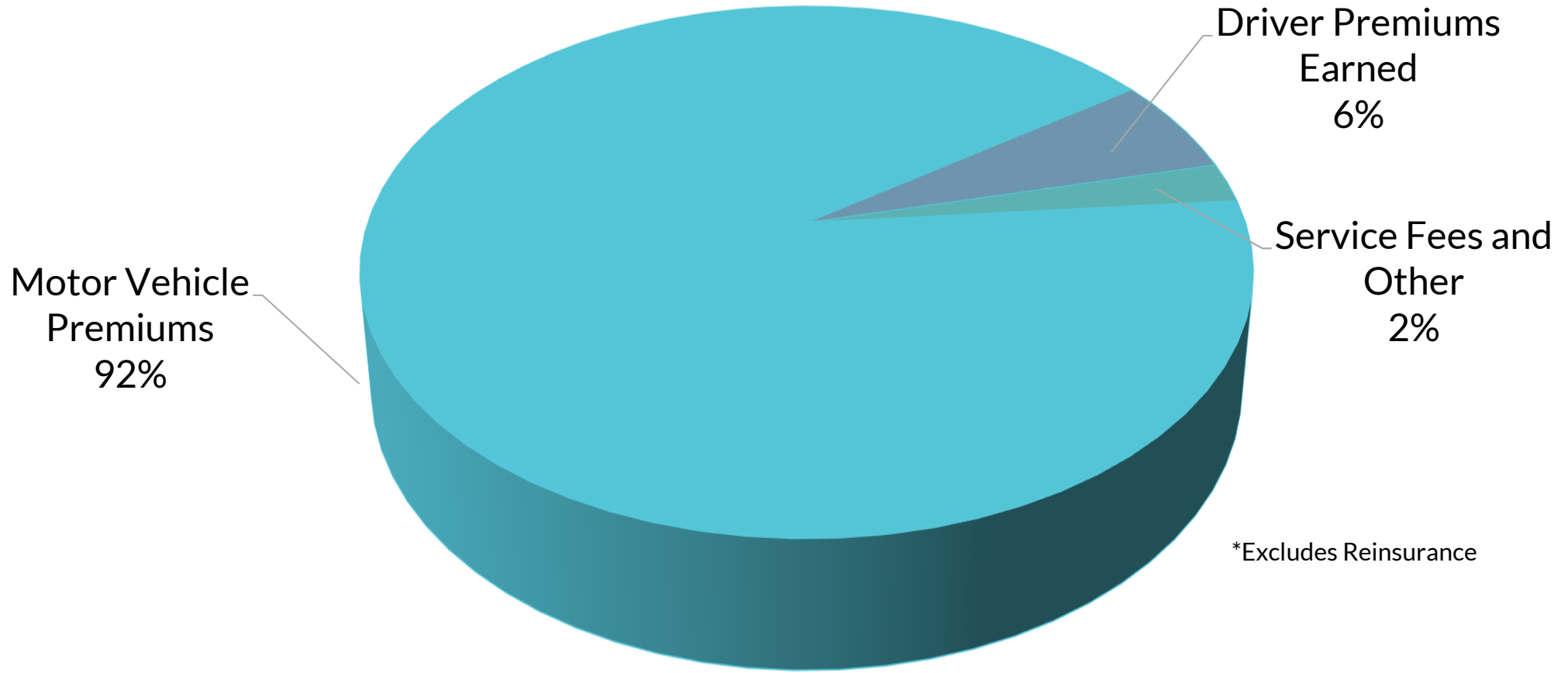
# Revenues

Basic Premiums  
Driver Premiums  
Reinsurance Premiums  
Service Fees



# MPI Revenues at a Glance – revenue are stable

2021/22 Earned Revenues\*



\*Excludes Reinsurance



# Factors Impacting Revenues from Basic Premiums

Basic premiums calculated based on the following:

## Rate

- (2021/22) -8.8% applied for in 2021 GRA, includes 5% capital release to 2022 rates
- (2022/23) -1.2% rate decrease

## Volume

- Growth in Basic earned vehicle units
- 1.13% in 2022/23, 1.06% thereafter

## Upgrade

- Ranges from 2.54% to 2.59% throughout the forecast

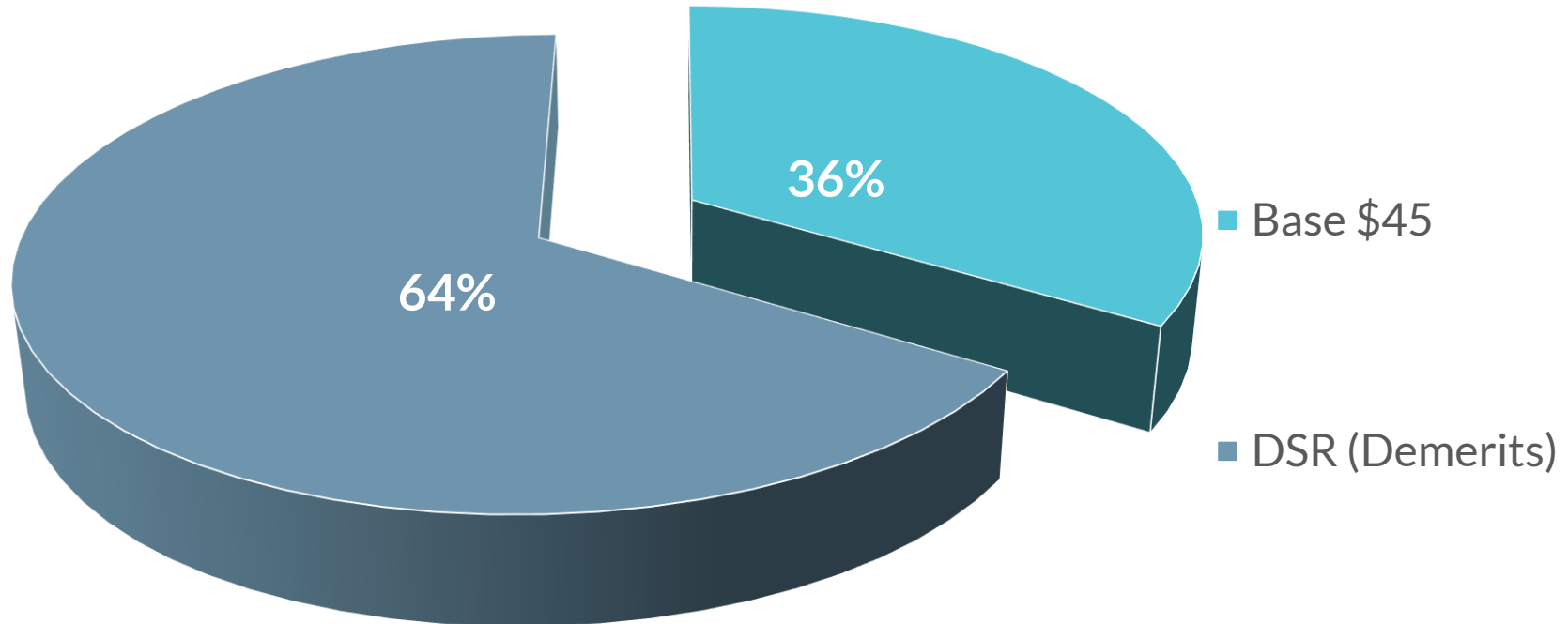
## Other

- Anti-theft discounts, Fleet rebates, suspension of 5% capital release provision from 2021 rates



# Revenues from Driver Premiums

## 2022/23 Approximate Driver License Premium Makeup



# Reinsurance Premiums – Protection for Manitobans against large losses

- Protection against large claims due to catastrophic events or serious bodily injury
- Premium paid to reinsurers to accept large loss risk on MPI behalf
- MPI assigns two types of risk to other reinsurers:
  - **Catastrophic**
    - Aggregate with \$40M stop loss and limit up to \$400M
  - **Casualty**
    - Should any one incident exceed \$10M in claims, reinsurers pay up to \$40M





## 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



# Expenses

Key Financial Updates

COVID-19 Impacts in 2021/22

Lean Portfolio Management

Expenditure Forecast

Salary Expenditures



# Key Financial Updates / COVID-19 Impacts

## MPI budget timelines realigned to ensure:

- Continuity with stakeholders
- Increased alignment for financial planning and management
- Long-term capital management

## COVID-19 impacts increased operating expenses:

- Increased safety protocol (~\$12M increase to operating expenses since start of pandemic) which impacts our rate indications
- Increased costs to service rebates



# Lean Portfolio Management

Allocation methodology consistent with historical application and aligns with PUB approvals

## Lean Portfolio Management (LPM):

- Increase IT foot print allowing for better cyber security, cloud based offerings, data analytics
  - Helps Manitobans by offering increased service offerings, and increasing IT security protections
- Allows for stronger spend management over time



# Expenditure Forecast – Increasing to support key initiatives (1/4)

## Data Processing costs to increase for upcoming years

- Accounting guideline IAS 38 does not allow deferral of cloud-based costs
- NOVA ongoing costs

## FTE increase to 1,949

- Mainly term positions to service Project Nova and ensure SRE, organizational alignment and readiness



# Expenditure management – prudent expense growth (2/4)

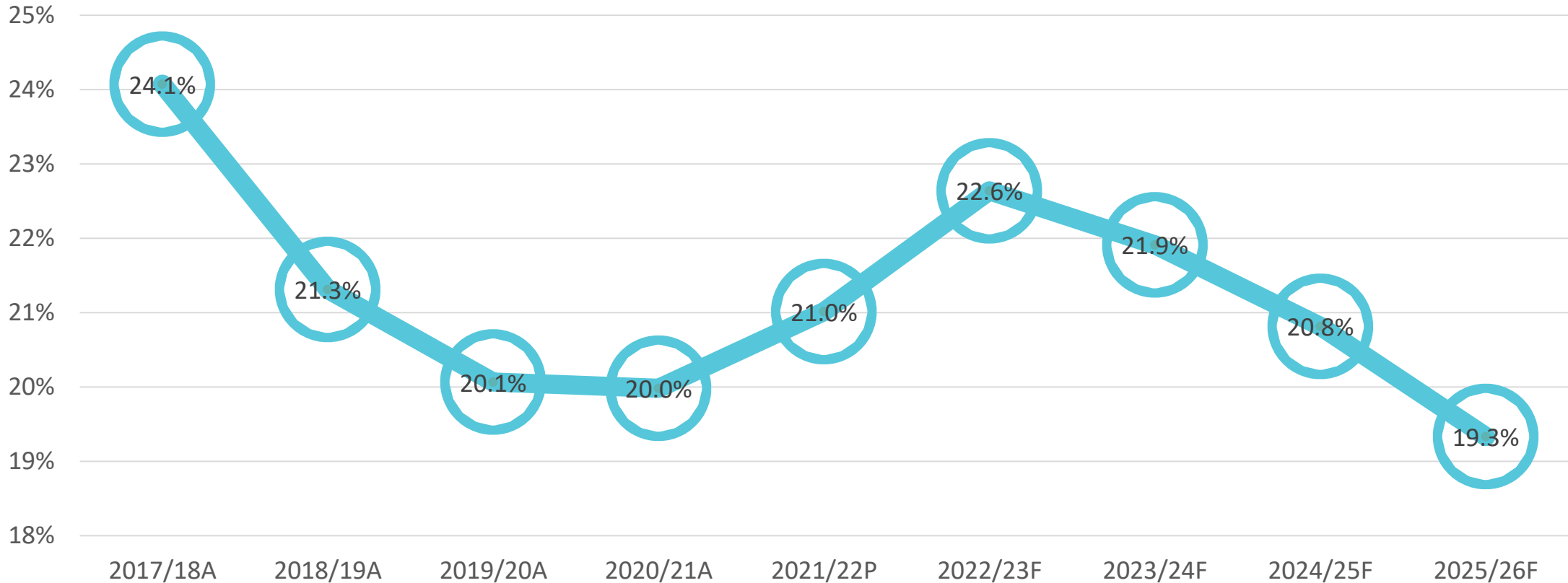
Expense	17/18 - 20/21 ( 4 years)
Compensation - Salaries	-0.2%
Compensation - Overtime	-9.5%
Compensation - Benefits	4.4%
Compensation - H & E Tax	0.1%
<b>Sub Total - Compensation</b>	<b>0.6%</b>
Data Processing	8.1%
Special Services	11.0%
Building Expenses	-6.9%
Safety/Loss Prevention Programs	-17.1%
Telephone/Telecommunications	-5.0%
Public Information/Advertising	-11.9%
Printing, Stationery, Supplies	-8.3%
Postage	2.5%
Regulatory/Appeal	-2.2%
Travel and Vehicle Expense	-20.4%
Driver Education Program	-20.0%
Grants in Lieu of Taxes	-1.3%
Furniture & Equipment	-2.0%
Merchant Fees & Bank Charges	-0.1%
Other	-7.6%
<b>Sub total - Other Normal Operating Expenses</b>	<b>-0.3%</b>

- Compounded growth rate for expenses **-0.3%** relative to expenses growth rate based on 6.1% annualized CPI target
- Expenses well-managed, MPI continues focus on its expense base to meet fiscal prudence mandate
- Key areas for future expense variability years:
  - Data Processing costs; and
  - Compensation requirements driven by Project Nova and MPI 2.0.



# Expenditure Forecast - Continued expense decrease over time (3/4)

Operating Expenses / Net Premiums Earned



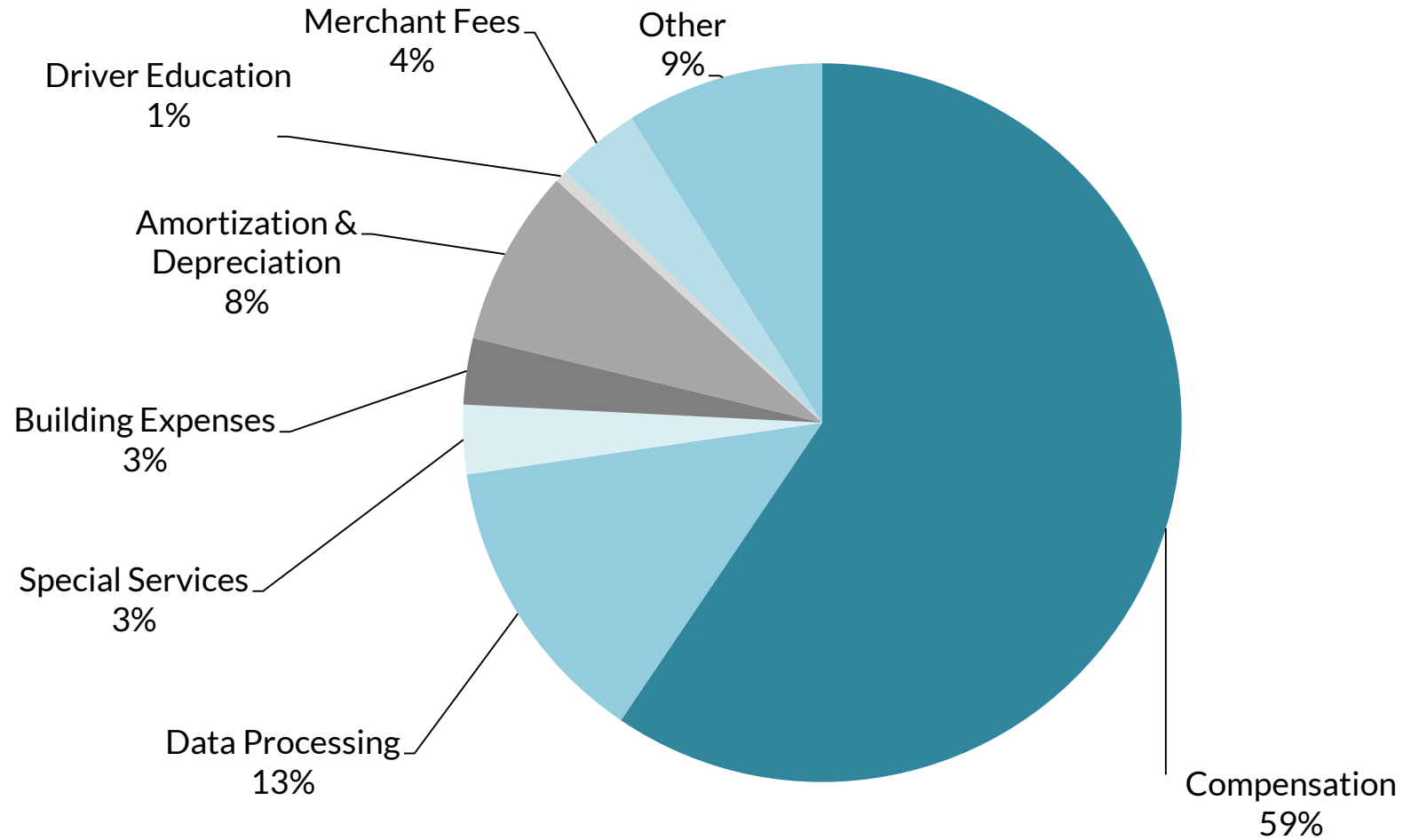
# Expenditure Forecast - Continued expense decrease over time (4/4)

	2022 GRA - Update Avg. of Rating Yrs	2021 GRA Avg. of Rating Yrs	Change (Percent)
<i>(C\$ 000s, rounding may affect totals)</i>			
<b>Basic Allocated Corporate Expenses</b>			
Claims Expense	155,162	150,500	3.1%
Road Safety/Loss Prevention	12,473	13,527	-7.8%
Operating	85,283	77,910	9.5%
Regulatory/Appeal	4,491	5,247	-14.4%
<b>Total Basic Allocated</b>	<b>257,408</b>	<b>247,184</b>	<b>4.1%</b>
<b>Basic Direct Expenses</b>			
Commissions	42,750	43,558	-1.9%
Premium Taxes	35,169	33,388	5.3%
<b>Total Basic Direct Expenses</b>	<b>77,918</b>	<b>76,946</b>	<b>1.3%</b>
<b>Total Basic Expenses</b>	<b>335,326</b>	<b>324,130</b>	<b>3.5%</b>





# Salary Expenditures – as a % of expenses (1/2)



# Salary Expenditures – trending below inflation (2/2)

## Compensation Expense Forecast Basic – Normal Operations

Expense	2020/21A	2021/22P	2022/23B	2023/24F	2024/25F
(\$000's, except where noted)					
Compensation - Salaries	98,627	n/a	105,058	106,841	107,900
Compensation - Overtime	844	n/a	1,091	1,064	1,038
Compensation - Benefits	27,300	n/a	26,775	26,564	26,540
Compensation - H & E Tax	2,159	n/a	2,360	2,364	2,387
<b>Subtotal - Compensation</b>	<b>128,930</b>	<b>127,432</b>	<b>135,284</b>	<b>136,834</b>	<b>137,865</b>
% - Change		<b>-1.2%</b>	<b>6.2%</b>	<b>1.1%</b>	<b>0.8%</b>

*Note: 2021/22 is a projection as detail at the expense cost category level not readily available.*

