PUB (MPI) Pre-Ask 4

Part and Chapter:		**Page No.:**	
PUB Approved Issue No:			
Topic:	**MPI Exhibit #37 PF-5 and PF-6**		
Sub Topic:			

Preamble to IR:

Question:

With respect to the change in claims incurred forecast:

a) Please provide greater detail on the $71.5 million reduction in 2021/22 due to COVID-19:

   i. Include a narrative of the changes in assumptions versus the 2022 GRA; and

   ii. A comparison of the actual and forecast monthly claims incurred, to that projected in the 2022 GRA. The total difference from the 2022 GRA forecast should equal the $71.5 million amount.

b) Please provide a narrative of the changes in other assumptions that result in changes in the projected claims, by coverage (comprehensive, collision, etc.), for each of 2021/22 and 2022/23.

c) Please provide an explanation of the non-neutral impact of the change in Interest Rate:

   i. Claims incurred impact of $24.6 million; and

   ii. Investment income impact of $57.2 million.

Rationale for Question:

RESPONSE:

a) The $71.5 million increased adjustment is a result of updating the collision and property damage forecast for actual experience and revising the forecasted decreases to frequency for the remaining months. The figure below shows the adjustment to the collision frequency forecast by loss month as a result of COVID-19. The rate update is the estimate as of July 31, 2021.

Figure 1 2021/22 COVID-19 Adjustment Assumptions - Collision Frequency

Line No.		April	May	June	July	August	September	October	November	December	January	February	March
1	**2022 GRA**	-20%	-20%	-20%	-10%	-10%	-10%	0%	0%	0%	0%	0%	0%
2	**Rate Update**	-21%	-30%	-16%	-24%	-20%	-20%	-20%	-15%	-15%	-10%	-10%	-5%

Below is the forecasted collision and property damage ultimate incurred by loss month for 2021/22. Ultimates for PIPP are not produced on a loss month basis. The adjustments for PIPP are made on an annual basis. These forecasts exclude impacts from LVAA and CERP. Those are included after the COVID-19 adjustments are made.

Figure 2 2021/22 Ultimate Incurred Monthly Forecast

Line No.		April	May	June	July	August	September	October	November	December	January	February	March	Total
1	**Collision**													
2	**2022 GRA**	$21,988	$24,207	$25,959	$28,956	$29,319	$30,870	$41,686	$48,149	$52,082	$50,306	$41,291	$32,800	$427,613
3	**Rate Update**	$22,006	$21,106	$26,703	$25,026	$26,061	$27,440	$33,349	$40,927	$44,270	$45,275	$37,162	$31,160	$380,485
4	**Difference**	$18	($3,101)	$744	($3,930)	($3,258)	($3,430)	($8,337)	($7,222)	($7,812)	($5,031)	($4,129)	($1,640)	($47,128)
5	**Property Damage**													
6	**2022 GRA**	$2,100	$2,345	$2,480	$2,749	$3,027	$2,837	$3,650	$3,809	$4,479	$4,449	$3,971	$2,983	$38,881
7	**Rate Update**	$2,156	$2,210	$2,403	$2,352	$2,691	$2,522	$2,920	$3,238	$3,807	$4,004	$3,574	$2,834	$34,712
8	**Difference**	$56	($135)	($77)	($397)	($336)	($315)	($730)	($571)	($672)	($445)	($397)	($149)	($4,169)

As noted in Figure 2, collision is $47.1 million or 11.02% lower than the 2022 GRA forecast. Weekly Indemnity, ABO-Indexed, and ABO-Non Indexed are proportionally adjusted lower by the same amount. Below shows the total assumed impact from COVID-19 for 2021/22 with a comparison to the 2022 GRA.

Figure 3 2021/22 Ultimate - COVID-19 until March 2022

Line No.	Basic Coverage	Forecast excluding COVID-19 [a]	COVID-19 Adjustment [b]	2022 GRA [c] = [a] + [b]	COVID-19 until March 31, 2022 [d]	Difference from Forecast excluding COVID-19 Adjustment [e] = [d] - [a]	Difference %	Difference from 2022 GRA [f] = [d] - [c]	Difference %
1	Weekly Indemnity	$96,096,245	($5,894,492)	$90,201,753	$80,260,366	($15,835,879)	-16.48%	($9,941,387)	-11.02%
2	ABO-Indexed	$67,138,970	($4,118,268)	$63,020,702	$56,075,015	($11,063,956)	-16.48%	($6,945,688)	-11.02%
3	ABO-NonIndexed	$32,211,417	($1,975,831)	$30,235,586	$26,903,237	($5,308,179)	-16.48%	($3,332,348)	-11.02%
4	Collision	$455,556,680	($27,943,601)	$427,613,079	$380,484,647	($75,072,033)	-16.48%	($47,128,432)	-11.02%
5	Property Damage	$41,569,117	($2,688,435)	$38,880,682	$34,711,684	($6,857,433)	-16.50%	($4,168,998)	-10.72%
6	**Total**					**($114,137,480)**		**($71,516,854)**	

b) MPI updated Collision, comprehensive, and property damage coverages with experience as of July 31, 2021. The most significant changes were from comprehensive, which was $21.6 million lower than the 2022 GRA. This was from favourable hail results year to date. As of July 31, 2021, the estimated ultimate for hail is $6.5 million versus $24.7 million in the 2022 GRA. The forecast for 2022/23 has been adjusted down for the favourable experience as a part of the rolling ten year average.

The update of the 2021 Light Vehicle Accreditation Agreement (LVAA) was the other significant change in the rate update. Initially, MPI estimated a $7 million impact throughout the forecast years in the 2022 GRA. The 2021 LVAA was finalized in July 2021. Below are the estimate impacts as a result of the 2021 LVAA.

Figure 4 2021 LVAA Impact - Fiscal Year Comparison ($000)

Line No.		2021/22	2022/23	2023/24	2024/25
1	**2022 GRA**	$7,000	$7,000	$7,000	$7,000
2	**Rate Update**	$14,927	$18,480	$22,874	$28,971
3	**Difference**	$7,927	$11,480	$15,874	$21,971

The majority of the increases are due to;

- $8.4 million from increases to the labour rate
- $4.0 million from increases related to materials
- $2.0 million for masking vehicles
- $1.5 million to extend clear coat to natural panel breaking point

c) The primary driver of the non-neutral interest rate impact was due to MPI extending duration as a result of the implementation of moment matching. Prior to the implementation of moment matching in June 2021 MPI's long term liabilities (>15 years) were poorly matched by its assets; in order to better match these liabilities MPI sold shorter term bonds and purchased longer term bonds. After the implementation of moment matching (June 2021) the portfolio duration increased and in the process increased the overall portfolio yield (by selling lower yielding shorter term bonds and purchasing higher yielding longer term bonds). The change in duration is a one-time event that magnified the expected gain resulting from declining interest rates (the yield on the Government of Canada 10 year bond fell by 34 basis points; from 1.56% at March 31, 2021 to 1.22% at August 31, 2021, while the claims discount rate fell by only 12 basis points during the same period; from 2.88% to 2.76%). Going forward MPI expects that its assets and liabilities will be better matched against interest rate fluctuations.