

October 22, 2021

Undertaking #35

With regards to PUB (MPI) 1-22, please update part c in two ways.

1. How much rebate can be offered in this application and still retain the 5% CMP provision (this would be the provision as approved, not as implemented)? Provide supporting calculations and PF-1, PF-2 and PF-3 reflecting this scenario. Continue the assumption that the maximum allowable rebate is subject to the requirement whereby the ending 2023/24 MCT ratio would be equal to 100%.
2. How much rebate can be offered in this application and still retain the CMP provision as implemented (worth approximately \$69 million in the 2021/22 year)? Provide supporting calculations and PF-1, PF-2 and PF-3 reflecting this scenario. Continue the assumption that the maximum allowable rebate is subject to the requirement whereby the ending 2023/24 MCT ratio would be equal to 100%.

RESPONSE:

1. When including the capital release in 2022/23 and recalculating the 2021/22 capital release based on applying the release with post DSR discount amounts, the total rebate would be approximately \$326.4 million. Please see Figure 1 for the supporting calculations of Basic Premiums Written and Earned including 2021/22 Capital Release as approved. Please see Figures 2 to 4 for PF-1, PF-2 and PF-3.

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Figure 1 Motor Vehicle Premiums Written and Earned: PUB (MPI) 1-22(c) with Rate Update and 2021/22 Capital Release as Approved

Line No.	BASIC	For the Years Ended March,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1	<i>(C\$ 000s, except where noted)</i>						
2	HTA Volume Change	1.11%	1.25%	1.13%	1.06%	1.06%	1.06%
3	HTA Upgrading & Other Changes	2.27%	2.44%	2.59%	2.58%	2.54%	2.55%
4	Rate Change	(0.50%)	(3.76%)	(1.16%)	0.00%	0.00%	0.00%
5	Capital Build / (Release)	0.00%	(5.00%)	(5.00%)	0.00%	0.00%	0.00%
6	Premiums Unearned during Year	49.42%	48.70%	48.70%	48.70%	48.70%	48.70%
7	Basic Insurance Written						
8	Last Year Premiums Written	1,074,249	1,115,102	1,113,124	1,141,462	1,183,323	1,226,241
9	Volume Increase	11,924	13,939	12,578	12,099	12,543	12,998
10	Total Volume Written	1,086,173	1,129,040	1,125,702	1,153,561	1,195,866	1,239,240
11	Upgrading & Other Changes	24,656	27,549	29,156	29,762	30,375	31,601
12	Total With Upgrading	1,110,829	1,156,589	1,154,858	1,183,323	1,226,241	1,270,840
13	Impact of Rate Change	(5,599)	(43,465)	(13,396)	0	0	0
14	Adjustments	9,871	-	-	-	-	-
15	Total Premium Written Before Rebates	1,115,102	1,113,124	1,141,462	1,183,323	1,226,241	1,270,840
16	Fleet Rebates	(21,583)	(18,621)	(17,710)	(18,401)	(19,100)	(19,832)
17	Capital Build / (Release)	-	(55,634)	(57,073)	-	-	-
18	Anti Theft & Other Charges	(1,539)	(1,412)	(1,328)	(1,241)	(1,155)	(1,068)
19	Total Premiums Written	1,091,979	1,037,457	1,065,350	1,163,680	1,205,987	1,249,940
20	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
21	Total Net Premiums Written	1,078,218	1,021,812	1,049,409	1,147,420	1,189,401	1,233,023
22	Basic Insurance Earned						
23	Beginning Unearned Premium Balance	514,587	539,680	505,277	518,862	566,752	587,357
24	Premiums Written	1,091,979	1,037,457	1,065,350	1,163,680	1,205,987	1,249,940
25	Unearned Premiums during Year	539,680	505,277	518,862	566,752	587,357	608,764
26	Premiums Earned	1,066,886	1,071,860	1,051,765	1,115,790	1,185,382	1,228,533
27	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
28	Total Net Premiums Earned	1,053,125	1,056,215	1,035,824	1,099,530	1,168,796	1,211,616

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Figure 2 PF-1 Statement of Operations**Multi-year - Statement of Operations**

Line No.	PUB 1-22(c) with Rate Update and 2021/22 Capital Release as approved (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1							
2	BASIC	2020/21A	2021/22P	2022/23FB	2023/24F	2024/25F	2025/26F
3	Motor Vehicles (excludes Capital Release)	1,091,979	1,093,090	1,122,422	1,163,679	1,205,986	1,249,939
4	Capital Release		(55,633)	(57,073)			
5	Drivers	66,714	61,179	63,772	65,978	67,889	69,691
6	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
7	Total Net Premiums Written	1,144,932	1,082,991	1,113,179	1,213,397	1,257,289	1,302,713
8	Net Premiums Earned						
9	Motor Vehicles	1,066,886	1,071,860	1,051,765	1,115,789	1,185,381	1,228,532
10	Drivers	67,343	63,506	62,499	64,895	66,951	68,806
11	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
12	Total Net Premiums Earned	1,120,468	1,119,721	1,098,322	1,164,424	1,235,746	1,280,421
13	Service Fees & Other Revenues	25,792	25,547	28,815	29,335	30,080	31,728
14	Total Earned Revenues	1,146,260	1,145,268	1,127,137	1,193,759	1,265,826	1,312,149
15	Claims Incurred	620,145	751,946	906,604	944,336	985,142	1,023,906
16	DPAC \ Premium Deficiency Adjustment	(10,511)	-	-	-	-	-
17	(a) Claims Incurred - Interest Rate Impact	44,194	37,094	14,162	15,673	14,897	13,671
18	Total Claims Incurred	653,828	789,040	920,766	960,009	1,000,039	1,037,577
19	Claims Expense	141,720	144,353	152,737	157,586	154,935	148,618
20	Road Safety/Loss Prevention	7,708	11,571	12,469	12,477	12,596	12,216
21	Total Claims Costs	803,256	944,964	1,085,972	1,130,072	1,167,570	1,198,411
22	Expenses						
23	Operating	70,063	73,450	83,761	86,804	85,497	82,468
24	Commissions	43,384	45,996	47,513	51,339	55,121	55,140
25	Premium Taxes	23,978	28,930	33,428	35,421	37,570	38,920
26	Regulatory/Appeal	4,399	4,269	4,620	4,362	4,169	4,253
27	Total Expenses	141,824	152,645	169,322	177,926	182,357	180,781
28	Underwriting Income (Loss)	201,180	47,659	(128,157)	(114,239)	(84,101)	(67,043)
29	Investment Income	88,878	91,492	98,909	99,507	98,312	96,661
30	(b) Investment Income - Interest Rate Impact	650	57,776	916	394	330	(13)
31	Net Investment Income	89,528	149,268	99,825	99,901	98,642	96,648
32	Gain (Loss) on Sale of Property	74	-	-	-	-	-
33	Net Income (Loss) from Annual Operations	290,782	196,927	(28,332)	(14,338)	14,541	29,605
34	Total net Impact due to interest rate change (b) - (a)	(43,544)	20,682	(13,246)	(15,279)	(14,567)	(13,684)

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Figure 3 PF-2 Statement of Financial Position**Multi-year - Statement of Financial Position**

Line No.	PUB 1-22(c) with Rate Update and 2021/22 Capital Release as approved (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1							
2	BASIC	2020/21A	2021/22P	2022/23FB	2023/24F	2024/25F	2025/26F
3	Assets						
4	Cash and cash equivalents	138,600	89,609	93,319	96,098	98,826	100,000
5	Investments	2,947,377	2,982,489	3,082,565	3,217,925	3,397,548	3,604,852
6	Investment property	6,065	5,917	5,788	5,660	5,531	5,402
7	Due from other insurance companies	109	-	-	-	-	-
8	Accounts receivable	405,876	411,427	421,929	454,105	469,675	485,545
9	Deferred policy acquisition costs	37,259	36,547	37,481	40,932	41,616	42,485
10	Reinsurers' share of unpaid claims	2,172	-	-	-	-	-
11	Property and equipment	110,262	128,045	149,307	167,649	179,880	186,035
12	Deferred development costs	32,042	46,450	56,887	59,629	45,889	33,864
13	Total Assets	3,679,762	3,700,484	3,847,276	4,041,998	4,238,965	4,458,183
14	Liabilities						
15	Due to other insurance companies	395	559	559	559	559	559
16	Accounts payable and accrued liabilities	196,153	80,153	81,318	85,170	82,519	79,385
17	Financing lease obligation	5,427	5,326	5,204	5,081	4,958	4,835
18	Unearned premiums and fees	592,939	558,423	574,877	625,568	648,960	673,244
19	Provision for employee current benefits	19,028	19,697	20,374	21,051	21,728	22,405
20	Provision for employee future benefits	385,846	409,517	420,943	432,373	443,803	455,234
21	Provision for unpaid claims	2,045,997	2,143,796	2,245,498	2,343,478	2,441,143	2,538,279
22	Total Liabilities	3,245,785	3,217,471	3,348,773	3,513,280	3,643,670	3,773,941
23	Equity						
24	Retained Earnings	448,678	474,588	490,301	521,371	587,457	670,888
25	Accumulated Other Comprehensive Income	(14,701)	8,426	8,203	7,348	7,837	13,355
26	Total Equity	433,977	483,014	498,504	528,719	595,294	684,243
27	Total Liabilities & Equity	3,679,762	3,700,485	3,847,277	4,041,999	4,238,964	4,458,184

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Figure 4 PF-3 Statement of Changes in Equity

Multi-year - Statement of Changes in Equity

Line No.	PUB 1-22(c) with Rate Update and 2021/22 Capital Release as approved (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1							
2	BASIC	2020/21A	2021/22P	2022/23FB	2023/24F	2024/25F	2025/26F
3	Total Equity						
4	Retained Earnings						
5	Beginning Balance	440,522	448,678	474,588	490,301	521,371	587,457
6	Net Income (Loss) from annual operations	290,782	196,927	(28,332)	(14,338)	14,541	29,605
7	Premium Rebate	(127,201)	(171,017)	-	-	-	-
8	Premium Rebate (accrued)	(155,425)					
9	Transfer from Extension Retained Earnings	-	-	44,045	45,408	51,545	53,826
10	Total Retained Earnings	448,678	474,588	490,301	521,371	587,457	670,888
11	Total Accumulated Other Comprehensive Income						
12	Beginning Balance	(34,296)	(14,701)	8,426	8,203	7,348	7,837
13	Other Comprehensive Income on Available for Sale Assets	53,984	36,288	(223)	(855)	489	5,518
14	Change in Remeasurement of Employee Future Benefits	(34,389)	(13,161)	-	-	-	-
15	Total Accumulated Other Comprehensive Income	(14,701)	8,426	8,203	7,348	7,837	13,355
16	Total Equity Balance	433,977	483,014	498,504	528,719	595,294	684,243
17	MINIMUM CAPITAL TEST (C\$ 000s)						
18	Total Equity Balance	433,835	483,014	498,504	528,719	595,294	684,243
19	Less: Assets Requiring 100% Capital	32,042	46,450	56,887	59,629	45,889	33,864
20	Capital Available	401,793	436,564	441,617	469,090	549,405	650,379
21	Minimum Capital Required (100% MCT)	401,793	420,922	443,059	469,072	488,434	513,478
22	MCT Ratio % (Line 20) / (Line 21)	100.0%	103.7%	99.7%	100.0%	112.5%	126.7%

2. When including the capital release in 2022/23 and applying the 2021/22 capital release as implemented (pre DSR discount), the total rebate would be approximately \$312.0 million. Please see [Figure 5](#) for the supporting calculations of Basic Premiums Written and Earned including 2021/22 Capital Release as implemented. Please see [Figures 6 to 8](#) for PF-1, PF-2 and PF-3.

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Figure 5 Motor Vehicle Premiums Written and Earned: PUB (MPI) 1-22(c) with Rate Update and 2021/22 Capital Release as implemented

Line No.	BASIC	For the Years Ended March,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1	<i>(C\$ 000s, except where noted)</i>						
2	HTA Volume Change	1.11%	1.25%	1.13%	1.06%	1.06%	1.06%
3	HTA Upgrading & Other Changes	2.27%	2.44%	2.59%	2.58%	2.54%	2.55%
4	Rate Change	(0.50%)	(3.76%)	(1.16%)	0.00%	0.00%	0.00%
5	Capital Build / (Release)	0.00%	(5.00%)	(5.00%)	0.00%	0.00%	0.00%
6	Premiums Unearned during Year	49.42%	48.70%	48.70%	48.70%	48.70%	48.70%
7	Basic Insurance Written						
8	Last Year Premiums Written	1,074,249	1,115,102	1,113,124	1,141,462	1,183,323	1,226,241
9	Volume Increase	11,924	13,939	12,578	12,099	12,543	12,998
10	Total Volume Written	1,086,173	1,129,040	1,125,702	1,153,561	1,195,866	1,239,240
11	Upgrading & Other Changes	24,656	27,549	29,156	29,762	30,375	31,601
12	Total With Upgrading	1,110,829	1,156,589	1,154,858	1,183,323	1,226,241	1,270,840
13	Impact of Rate Change	(5,599)	(43,465)	(13,396)	0	0	0
14	Adjustments	9,871	-	-	-	-	-
15	Total Premium Written Before Rebates	1,115,102	1,113,124	1,141,462	1,183,323	1,226,241	1,270,840
16	Fleet Rebates	(21,583)	(18,621)	(17,710)	(18,401)	(19,100)	(19,832)
17	Capital Build / (Release)	-	(70,933)	(57,073)	-	-	-
18	Anti Theft & Other Charges	(1,539)	(1,412)	(1,328)	(1,241)	(1,155)	(1,068)
19	Total Premiums Written	1,091,979	1,022,157	1,065,350	1,163,680	1,205,987	1,249,940
20	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
21	Total Net Premiums Written	1,078,218	1,006,513	1,049,409	1,147,420	1,189,401	1,233,023
22	Basic Insurance Earned						
23	Beginning Unearned Premium Balance	514,587	539,680	497,826	518,862	566,752	587,357
24	Premiums Written	1,091,979	1,022,157	1,065,350	1,163,680	1,205,987	1,249,940
25	Unearned Premiums during Year	539,680	497,826	518,862	566,752	587,357	608,764
26	Premiums Earned	1,066,886	1,064,011	1,044,314	1,115,790	1,185,382	1,228,533
27	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
28	Total Net Premiums Earned	1,053,125	1,048,367	1,028,372	1,099,530	1,168,796	1,211,616

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Figure 6 PF-1 Statement of Operations**Multi-year - Statement of Operations**

Line No.	PUB 1-22(c) with Rate Update and 2021/22 Capital Release as implemented (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1							
2	BASIC	2020/21A	2021/22P	2022/23FB	2023/24F	2024/25F	2025/26F
3	Motor Vehicles (excludes Capital Release)	1,091,979	1,093,090	1,122,422	1,163,679	1,205,986	1,249,939
4	Capital Release		(70,932)	(57,073)			
5	Drivers	66,714	61,179	63,772	65,978	67,889	69,691
6	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
7	Total Net Premiums Written	1,144,932	1,067,692	1,113,179	1,213,397	1,257,289	1,302,713
8	Net Premiums Earned						
9	Motor Vehicles	1,066,886	1,064,012	1,044,314	1,115,789	1,185,381	1,228,532
10	Drivers	67,343	63,506	62,499	64,895	66,951	68,806
11	Reinsurance Ceded	(13,761)	(15,645)	(15,942)	(16,260)	(16,586)	(16,917)
12	Total Net Premiums Earned	1,120,468	1,111,873	1,090,871	1,164,424	1,235,746	1,280,421
13	Service Fees & Other Revenues	25,792	25,468	28,814	29,334	30,079	31,727
14	Total Earned Revenues	1,146,260	1,137,341	1,119,685	1,193,758	1,265,825	1,312,148
15	Claims Incurred	620,145	751,946	906,604	944,328	985,141	1,023,906
16	DPAC \ Premium Deficiency Adjustment	(10,511)	-	-	-	-	-
17	(a) Claims Incurred - Interest Rate Impact	44,194	37,094	13,914	15,916	14,911	13,711
18	Total Claims Incurred	653,828	789,040	920,518	960,244	1,000,052	1,037,617
19	Claims Expense	141,720	144,353	152,737	157,586	154,935	148,618
20	Road Safety/Loss Prevention	7,708	11,571	12,469	12,477	12,596	12,216
21	Total Claims Costs	803,256	944,964	1,085,724	1,130,307	1,167,583	1,198,451
22	Expenses						
23	Operating	70,063	73,450	83,761	86,804	85,497	82,468
24	Commissions	43,384	45,752	47,183	51,339	55,121	55,140
25	Premium Taxes	23,978	29,128	33,204	35,421	37,570	38,920
26	Regulatory/Appeal	4,399	4,269	4,620	4,362	4,169	4,253
27	Total Expenses	141,824	152,599	168,768	177,926	182,357	180,781
28	Underwriting Income (Loss)	201,180	39,778	(134,807)	(114,475)	(84,115)	(67,084)
29	Investment Income	88,878	91,492	98,849	99,809	98,154	96,484
30	(b) Investment Income - Interest Rate Impact	650	57,776	914	437	332	(13)
31	Net Investment Income	89,528	149,268	99,763	100,246	98,486	96,471
32	Gain (Loss) on Sale of Property	74	-	-	-	-	-
33	Net Income (Loss) from Annual Operations	290,782	189,046	(35,044)	(14,229)	14,371	29,387
34	Total net Impact due to interest rate change (b) - (a)	(43,544)	20,682	(13,000)	(15,479)	(14,579)	(13,724)

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Figure 7 PF-2 Statement of Financial Position**Multi-year - Statement of Financial Position**

Line No.	PUB 1-22(c) with Rate Update and 2021/22 Capital Release as implemented (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,					
		2021A	2022P	2023FB	2024F	2025F	2026F
1							
2	BASIC	2020/21A	2021/22P	2022/23FB	2023/24F	2024/25F	2025/26F
3	Assets						
4	Cash and cash equivalents	138,600	89,609	93,319	96,087	98,802	100,000
5	Investments	2,947,377	2,986,051	3,082,473	3,217,596	3,397,063	3,604,175
6	Investment property	6,065	5,917	5,788	5,660	5,531	5,402
7	Due from other insurance companies	109	-	-	-	-	-
8	Accounts receivable	405,876	406,959	421,929	454,105	469,676	485,545
9	Deferred policy acquisition costs	37,259	36,547	37,481	40,932	41,616	42,485
10	Reinsurers' share of unpaid claims	2,172	-	-	-	-	-
11	Property and equipment	110,262	128,045	149,307	167,649	179,880	186,035
12	Deferred development costs	32,042	46,450	56,887	59,629	45,889	33,864
13	Total Assets	3,679,762	3,699,578	3,847,184	4,041,658	4,238,457	4,457,506
14	Liabilities						
15	Due to other insurance companies	395	559	559	559	559	559
16	Accounts payable and accrued liabilities	196,153	80,153	81,318	85,170	82,519	79,385
17	Financing lease obligation	5,427	5,326	5,204	5,081	4,958	4,835
18	Unearned premiums and fees	592,939	550,972	574,877	625,568	648,960	673,244
19	Provision for employee current benefits	19,028	19,697	20,374	21,051	21,728	22,405
20	Provision for employee future benefits	385,846	409,517	420,943	432,373	443,803	455,234
21	Provision for unpaid claims	2,045,997	2,143,796	2,245,250	2,343,464	2,441,143	2,538,318
22	Total Liabilities	3,245,785	3,210,020	3,348,525	3,513,266	3,643,670	3,773,980
23	Equity						
24	Retained Earnings	448,678	481,133	490,432	521,537	587,437	670,641
25	Accumulated Other Comprehensive Income	(14,701)	8,426	8,229	6,855	7,348	12,883
26	Total Equity	433,977	489,559	498,661	528,392	594,785	683,524
27	Total Liabilities & Equity	3,679,762	3,699,579	3,847,186	4,041,658	4,238,455	4,457,504

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Figure 8 PF-3 Statement of Changes in Equity

Multi-year - Statement of Changes in Equity

Line No.		For the Years Ended March 31,						
		2021A	2022P	2023FB	2024F	2025F	2026F	
1		<i>PUB 1-22(c) with Rate Update and 2021/22 Capital Release as implemented</i>						
2		<i>(C\$ 000s, rounding may affect totals)</i>						
3		2020/21A	2021/22P	2022/23FB	2023/24F	2024/25F	2025/26F	
4		BASIC						
5		Total Equity						
6		Retained Earnings						
7		Beginning Balance	440,522	448,678	481,133	490,432	521,537	587,437
8		Net Income (Loss) from annual operations	290,782	189,046	(35,044)	(14,229)	14,371	29,387
9		Premium Rebate	(127,201)	(156,591)	-	-	-	-
10		Premium Rebate (accrued)	(155,425)					
11		Transfer from Extension Retained Earnings	-	-	44,343	45,334	51,529	53,817
12		Total Retained Earnings	448,678	481,133	490,432	521,537	587,437	670,641
13		Total Accumulated Other Comprehensive Income						
14		Beginning Balance	(34,296)	(14,701)	8,426	8,229	6,855	7,348
15		Other Comprehensive Income on Available for Sale Assets	53,984	36,288	(197)	(1,374)	493	5,535
16		Change in Remeasurement of Employee Future Benefits	(34,389)	(13,161)	-	-	-	-
17		Total Accumulated Other Comprehensive Income	(14,701)	8,426	8,229	6,855	7,348	12,883
18		Total Equity Balance	433,977	489,559	498,661	528,392	594,785	683,524
19		MINIMUM CAPITAL TEST (C\$ 000s)						
20		Total Equity Balance	433,835	489,559	498,661	528,392	594,785	683,524
21		Less: Assets Requiring 100% Capital	32,042	46,450	56,887	59,629	45,889	33,864
22		Capital Available	401,793	443,109	441,774	468,763	548,896	649,660
23		Minimum Capital Required (100% MCT)	401,793	420,508	443,299	468,756	488,065	513,092
24		MCT Ratio % (Line 20) / (Line 21)	100.0%	105.4%	99.7%	100.0%	112.5%	126.6%