

**Order No. 176/19**

**MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION):  
COMPULSORY 2020/2021 DRIVER AND VEHICLE INSURANCE PREMIUMS  
AND OTHER MATTERS**

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**December 3, 2019**

**BEFORE: Irene A. Hamilton, Q.C., Panel Chair  
Robert Gabor, Q.C., Board Chair  
Carol Hainsworth, Member**

- Evolving the basis of estimating Basic's Net Capital Maintenance Provision in a manner consistent with the objective of promoting stability over time in this estimate.

The Corporation's proposed Capital Management Plan was designed prior to the challenge to the validity of the Reserves Regulation and therefore was based on the presumption that the Regulation is valid. As described above, the Regulation set a single Basic target capital level, reflecting a 100% MCT ratio. The Corporation's proposed Capital Management Plan reflected its interpretation of the Regulation, as the means and pathway to achieve 100% MCT for the Basic RSR.

From the Corporation's perspective, the requirements of the Regulation effectively severed the tie that previously existed between the Basic DCAT investigation and the setting of Basic target capital levels. Given this position, the Corporation indicated that starting with this Application and going forward, the Basic DCAT would no longer reflect assumptions determined based on the earlier collaborative discussions with Board stakeholders, and would instead reflect assumptions more closely aligned with the risk appetite of the Corporation's Board of Directors. The first evidence of this was the adoption of DCAT scenario testing at the 99<sup>th</sup> percentile outcome level (1-in-100-year event) rather than the 97.5<sup>th</sup> percentile outcome level (1-in-40-year event) adopted previously.

The Corporation indicated that it interpreted that it would be in compliance with the Regulation if the Basic MCT ratio is in excess of 100%, or the Corporation has an established plan to bring the Basic MCT ratio to at least 100% within a period of five years or less. Coincidentally, the Corporation reported that Basic had substantially achieved its 100% MCT ratio target as of the end of the second quarter of the 2019/20 fiscal year, for reasons unrelated to the Capital Management Plan.

The Corporation sought the Board's approval of the proposed Capital Management Plan, which incorporates:

- A single Basic target capital level based on a 100% MCT ratio (based on the Reserves Regulation);
- A commitment to transfer excess Retained Earnings from the Extension line to Basic, where excess is determined relative to the single Extension target capital level of a 200% Minimum Capital Test ratio as set by the Regulation;
- A phase-in approach to move towards the Basic target capital level over a number of years through Capital Build or Capital Release provisions;
- Determination of the need for any Capital Build or Capital Release provisions in each GRA after consideration of the Basic rate level change indication and the expected capital transfers from Extension;
- Use of judgmentally selected five-year and three-year phase-in periods for Capital Build and Capital Release provisions, respectively;
- Imposition of a judgmentally selected 5% cap on the combination of the overall Basic rate indication and any Capital Build provision; and
- Imposition of a judgmentally selected 5% cap on any Capital Release provision.

In its evidence, the Corporation conceded that there is no analytical foundation to demonstrate that the Capital Management Plan, as proposed, will improve rate stability. The Corporation indicated that the proposed phase-in periods and capping levels were selected judgmentally to limit rate changes in a manner broadly consistent with past decisions of the Board and the modelling assumptions for management / regulatory actions used previously in the Basic DCAT investigations. While the Corporation acknowledged that there are possible rate stability benefits that come from a target capital range rather than a single target capital level, the Corporation argued that it is the

workings of the Capital Management Plan that promotes rate stability in gradually working towards the single target capital level set out in the Regulation.

The Corporation committed to transferring excess retained earnings over 200% MCT from Extension to Basic, regardless of the Basic MCT ratio at the time.

Based on the October 4, 2019 update, the Corporation has forecasted transferring \$75.1 million in 2019/20, \$42.5 million in 2020/21, and \$44.5 million in 2021/22 from Extension to Basic RSR. The forecast of Extension equity and the transfers of excess retained earnings to maintain a 200% MCT for Extension is as follows:

	2020P	2021F	2022F	2023F	2024F
<b>Extension Statement of Changes in Equity</b>					
<b>EXTENSION</b>					
<i>(C\$ 000s, rounding may affect totals)</i>					
<b>Retained Earnings</b>					
Beginning Balance	99,213	79,787	82,468	85,546	87,514
Net Income / (Loss)	55,707	45,182	47,560	50,905	52,771
Premium Rebate	-	-	-	-	-
Transfer (to) / from Basic Retained Earnings	(75,133)	(42,501)	(44,482)	(48,937)	(48,444)
<b>Total Retained Earnings</b>	<b>79,787</b>	<b>82,468</b>	<b>85,546</b>	<b>87,514</b>	<b>91,841</b>
<b>Total Accumulated Other Comprehensive Income</b>					
Beginning Balance	(4,511)	(9,679)	(8,967)	(8,147)	(7,183)
Other Comprehensive Income for the Year	(1,866)	804	880	1,027	1,342
<b>Total Accumulated Other Comprehensive Income</b>	<b>(6,377)</b>	<b>(8,875)</b>	<b>(8,087)</b>	<b>(7,120)</b>	<b>(5,841)</b>
<b>Total Equity Balance</b>	<b>70,108</b>	<b>73,501</b>	<b>77,399</b>	<b>80,332</b>	<b>85,914</b>
<b>MINIMUM CAPITAL TEST (C\$ 000s)</b>					
Total Equity Balance	70,108	73,501	77,399	80,332	85,914
Less: Assets Requiring 100% Capital	4,091	5,739	7,355	8,079	7,574
Capital Available	66,017	67,762	70,044	72,253	78,340
Minimum Capital Required (100% MCT)	33,004	33,903	35,024	36,129	39,169
<b>MCT Ratio %</b>	<b>200.0%</b>	<b>200.0%</b>	<b>200.0%</b>	<b>200.0%</b>	<b>200.0%</b>