

October 23, 2023

Undertaking #019

MPI to provide a revised RI-10, PF-1, PF-2, and PF-3 reflecting the change in the rate indication with a reduction in expenses in the ratemaking calculation, some combination of claims incurred expense, and operating expense of 12 ½ million.

RESPONSE:

Basic's share of a \$12.5 million reduction to corporate benefits expense is approximately \$8.5 million. The AAP rate indication changes by -0.28% from the provisional rate of -0.13% to -0.41%

Figure 1 below is an update to RI-10 with a reduction of \$12.5 million to corporate benefits expense, beginning in 2023/24 and onward.

In addition, Figures 2 to 5 are an update to PF.1, PF.2, PF.3 and PF.1a when using the calculated rate indication of as shown on Figure 1.

Please note, due to the limited integration of the IFRS 17 expense allocation process within the rate update forecast, the Figures shown below are based on the 2024 GRA Base forecast with an IFRS 4 allocation process. Allocations under IFRS 17 are expected to yield comparable results.

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Figure 1 Rating Year 2024/25 Major Classification Applied for Rate Change

**Figure 1
Rating Year 2024/25 Major Classification Applied for Rate Change**

Line No.	Coverage	Overall	Private Pass.	Comm.	Public	Motor- cycles	Trailers	ORV's
1	24/25 Units	1,280,333	863,331	49,070	13,089	19,322	244,888	90,633
2	Claims	710.18	953.28	738.91	1,888.37	665.64	49.09	4.51
3	Claims Expense	122.19	164.01	127.13	324.90	114.52	8.45	0.78
4	Road Safety	9.39	12.73	12.73	12.73	12.73	0.00	0.00
5	Operating Expense	51.32	69.55	69.55	69.55	69.55	0.00	0.00
6	Regulatory/Appeal	3.32	4.50	4.50	4.50	4.50	0.00	0.00
7	Commission: Vehicle	38.39	51.01	45.06	110.43	34.87	3.12	0.24
8	Prem Tax: Vehicle	27.82	36.96	32.65	80.02	25.27	2.26	0.17
9	Comm & Prem Tax: Driver	2.84	3.85	3.85	3.85	3.85	0.00	0.00
10	Commission Flat Fee	5.68	7.70	7.70	7.70	7.70	0.00	0.00
11	Reins: Casualty	2.01	2.72	2.72	2.72	2.72	0.00	0.00
12	Reins: Catastrophe	11.38	12.45	12.45	12.45	0.00	12.45	0.00
13	Fleet Rebates	15.31	11.52	130.25	249.26	0.00	0.00	0.00
14	Anti-Theft Discount	0.56	0.83	0.00	0.00	0.00	0.00	0.00
15	Driver Prem	51.69	70.05	70.05	70.05	70.05	0.00	0.00
16	Service Fees	21.41	29.02	29.02	29.02	29.02	0.00	0.00
17	Req Rate	927.29	1,232.06	1,088.44	2,667.41	842.30	75.36	5.69
18	Adj. Req Rate	908.26	1,206.77	1,066.10	2,612.66	825.01	73.81	5.58
19	23/24 Average Rate	870.37	1,150.24	908.29	2,252.53	882.92	62.24	5.69
20	Major Class Drift	4.8%	6.0%	4.6%	1.2%	-0.1%	7.3%	0.0%
21	24/25 Average Rate							
22	Without Rate Change	912.02	1,218.86	949.64	2,279.87	882.12	66.81	5.69
23	Full Cred Req Change	-0.4%	-1.0%	12.3%	14.6%	-6.5%	10.5%	-2.0%
24	Applied for Change	0.0%	-0.6%	12.7%	15.1%	-6.1%	10.9%	-1.6%
25	Credibility		99.3%	89.1%	68.6%	76.3%	97.6%	93.8%
26	Cred Wtd Change		-0.6%	11.3%	10.3%	-4.6%	10.7%	-1.5%
27	Cred Wtd Req Rate	910.61	1,211.82	1,057.35	2,515.48	841.15	73.94	5.61
28	Cred Wtd Req Rate (Bal)	912.02	1,213.71	1,058.99	2,519.40	842.46	74.06	5.62
29	Cred Wtd Change (Bal)	0.0%	-0.4%	11.5%	10.5%	-4.5%	10.9%	-1.4%

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Figure 2: PF- 1 Statement of Operations: -0.41% Basic Rate Change

2024 GRA - Basic rate change of -0.41% - With \$12.5 million reduction in corporate benefits expense

Line No.	Reclass Adj. from / (to)	For the Years Ended March 31,							
		IFRS 4	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17
		2023A	IFRS 17 Adj.*	2023BF	2024F	2025F	2026F	2027F	2028F
1									
2	BASIC								
3	Motor Vehicles	1,121,811	-	1,121,811	1,112,046	1,143,300	1,180,032	1,215,355	1,253,502
4	Capital Release Provision	(57,026)	-	(57,026)	-	-	-	-	-
5	Drivers	59,085	-	59,085	62,520	64,822	66,634	67,982	70,043
6	Reinsurance Ceded	(16,392)	-	(16,392)	(16,386)	(16,878)	(17,384)	(17,906)	(18,443)
7	Total Net Premiums Written	1,107,478	-	1,107,478	1,158,180	1,191,244	1,229,282	1,265,431	1,305,102
8	Net Premiums Earned								
9	Motor Vehicles	1,103,695	-	1,103,695	1,119,108	1,127,873	1,161,902	1,197,920	1,234,673
10	Capital Release Provision	(65,568)	-	(65,568)	(28,558)	-	-	-	-
11	Drivers	59,896	-	59,896	61,180	63,693	65,745	67,321	69,032
12	Reinsurance Ceded	(16,392)	-	(16,392)	(16,386)	(16,878)	(17,384)	(17,906)	(18,443)
13	Total Net Premiums Earned	1,081,631	-	1,081,631	1,135,344	1,174,688	1,210,263	1,247,335	1,285,262
14	Service Fees & Other Revenues (a)	27,277	(588)	26,689	26,904	27,120	27,705	28,335	29,000
15	Total Earned Revenues	1,108,908	(588)	1,108,320	1,162,248	1,201,808	1,237,968	1,275,670	1,314,262
16	Claims Incurred (b)	903,129	57,095	960,224	922,894	969,379	1,002,628	1,038,266	1,074,941
17	DPAC \ Premium Deficiency Adjustment	-	-	-	-	-	-	-	-
18	(a) Claims Incurred - Interest Rate Impact (b)	(101,437)	(21,018)	(122,455)	7,177	(4,531)	(11,152)	(11,511)	(12,182)
19	Total Claims Incurred	801,692	36,077	837,769	930,071	964,848	991,476	1,026,755	1,062,759
20	Claims Expense	146,265	-	146,265	150,615	141,355	142,425	135,516	135,171
21	Road Safety/Loss Prevention	10,530	-	10,530	14,363	12,034	12,014	12,088	12,234
22	Total Claims Costs	958,487	36,077	994,564	1,095,049	1,118,237	1,145,915	1,174,359	1,210,164
23	Expenses								
24	Operating	86,526	-	86,526	95,300	90,483	91,873	88,426	88,206
25	Commissions (c)	47,548	935	48,483	50,817	56,082	55,877	56,109	56,392
26	Premium Taxes (c)	32,941	775	33,716	35,239	36,245	37,402	38,502	39,708
27	Regulatory/Appeal	4,769	-	4,769	4,608	4,210	4,299	4,317	4,336
28	Total Expenses	171,784	1,710	173,494	185,964	187,020	189,451	187,354	188,642
29	Underwriting Income (Loss) (a,b,c)	(21,363)	(38,375)	(59,738)	(118,765)	(103,449)	(97,398)	(86,043)	(84,544)
30	Investment Income	98,194	-	98,194	125,225	127,554	132,700	139,305	148,807
31	(b) Investment Income - Interest Rate Impact	(115,602)	-	(115,602)	496	-	-	-	-
32	Net Investment Income	(17,408)	-	(17,408)	125,721	127,554	132,700	139,305	148,807
33	Gain (Loss) on Sale of Property	112	-	112	-	-	-	-	-
34	Net Income (Loss) from Operations	(38,659)	(38,375)	(77,034)	6,956	24,105	35,302	53,262	64,263
36	Total net Impact due to interest rate change (b) - (a)	(14,165)	21,018	6,853	(6,681)	4,531	11,152	11,511	12,182
37	Net Income (Loss) from Operations				6,956	24,105	35,302	53,262	64,263
38	Adjust for Initiative Expenses (BO 12.1 d)				(29,195)	(26,142)	(26,609)	(10,735)	(3,634)
39	Net Income (Loss) for for Rate Setting Purposes				36,151	50,247	61,911	63,997	67,897

* IFRS 17 Adjustments are for fiscal year 2022-23 only.

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Figure 3: PF- 2 Statement of Financial Position: -0.41% Basic Rate Change

2024 GRA - Basic rate change of -0.41% - With \$12.5 million reduction in corporate benefits expense

Line	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17
No. (C\$ 000s, rounding may affect totals)	2023BF	2024F	2025F	2026F	2027F	2028F
2 BASIC						
3 Assets						
4 Cash and cash equivalents	102,396	2,096	4,921	7,922	11,300	15,302
5 Investments	2,786,044	2,925,184	2,989,564	3,093,734	3,254,255	3,436,482
6 Investment property	5,759	5,604	5,449	5,295	5,140	4,985
7 Accounts receivable	-	-	-	-	-	-
8 Reinsurance asset	4,322	-	-	-	-	-
9 Property and Equipment	124,238	133,543	144,396	167,842	168,994	170,146
10 Deferred development costs	28,271	33,972	36,422	34,057	27,862	21,971
11 Total Assets	3,051,030	3,100,399	3,180,752	3,308,850	3,467,551	3,648,886
12 Liabilities						
13 Due to other insurance companies						
14 Accounts payable and accrued liabilities	58,748	67,040	64,020	62,492	59,830	59,380
15 Reinsurance Liability	-	320	320	320	320	320
16 Lease obligation	5,308	5,276	5,153	5,031	4,908	4,785
17 Insurance contract liability	2,203,302	2,230,879	2,276,506	2,318,516	2,364,284	2,413,385
18 Provision for employee current benefits	19,784	20,670	21,347	22,024	22,701	23,378
19 Provision for employee future benefits	328,847	340,182	351,515	362,847	374,180	385,513
20 Total Liabilities	2,615,989	2,664,367	2,718,861	2,771,230	2,826,223	2,886,761
21 Equity						
22 Retained Earnings	378,246	426,081	451,939	527,668	631,376	752,172
23 Accumulated Other Comprehensive Income	56,793	9,947	9,947	9,947	9,947	9,947
24 Total Equity	435,039	436,028	461,886	537,615	641,323	762,119
25 Total Liabilities & Equity	3,051,029	3,100,396	3,180,748	3,308,845	3,467,546	3,648,880
26 * Includes April 1, 2022 and fiscal 2022-23 adjustments						

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Figure 4: PF- 3 Statement of Changes in Equity: -0.41% Basic Rate Change

2024 GRA - Basic rate change of -0.41% - With \$12.5 million reduction in corporate benefits expense

Line No. (C\$ 000s, except where noted)	IFRS 4	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17	IFRS 17		
	2023A	IFRS 17 Adj.	2023BF	2024F	2025F	2026F	2027F	2028F	
	<i>For the Years Ended March 31,</i>								
BASIC									
1	Total Equity								
2	Retained Earnings								
3	Beginning Balance		359,335	378,246	378,246	426,081	451,939	527,668	631,376
4	Restatement of AOCI on AFS Assets (IFRS 9)				46,845	-	-	-	-
5	Restatement of MUSH Assets to FVTPL (IFRS 9)				(5,966)	-	-	-	-
6	Restatement of Claims Discount Rate (IFRS 17)*	86,273							
7	Restatement of Risk Adjustment (IFRS 17)*	13,345							
8	Restatement of DPAC (IFRS 17)*	(37,673)							
9	Net Income (Loss) from Operations	(38,659)	(38,375)		6,956	24,105	35,302	53,262	64,263
10	Rebate to Policyholders	-	-		-	-	-	-	-
11	Transfer (to) / from Non-Basic Retained Earnings	34,000	-		-	1,753	40,427	50,446	56,533
12	Total Retained Earnings	354,676	23,570	378,246	426,081	451,939	527,668	631,376	752,172
13	Total Accumulated Other Comprehensive Income								
14	Beginning Balance		51,428	56,793	9,947	9,947	9,947	9,947	9,947
15	Other Comprehensive Income on Available for Sale Assets	(31,291)	(31,291)		(1)	-	-	-	-
16	Restatement of AOCI on AFS Assets (IFRS 9)			(46,845)					
17	Change in Remeasurement of Employee Future Benefits	36,656	36,656						
18	Total Accumulated Other Comprehensive Income	56,793	-	56,793	9,947	9,947	9,947	9,947	9,947
19	Total Accumulated Other Comprehensive Income Balance								
20	Employee Future Benefits Portfolio								
21	Available for Sale Assets	30,889	30,889	0	0	0	0	0	0
22	Employee Future Benefits Liabilities	9,946	9,946	9,946	9,946	9,946	9,946	9,946	9,946
23	Rate Stabilization Reserve Portfolio								
24	Available for Sale Assets	15,957	15,957	0	0	0	0	0	0
25	Total Accumulated Other Comprehensive Income Balance	56,793	56,793	9,947	9,947	9,947	9,947	9,947	9,947
26	Total Equity Balance	411,469	23,570	435,039	436,028	461,886	537,615	641,323	762,119
	<i>*Restatement calculated as at April 1, 2022</i>								
27	MINIMUM CAPITAL TEST (C\$ 000s)								
28	Total Equity Balance	411,467	23,572	435,039	436,028	461,886	537,615	641,323	762,119
29	Less: Assets Requiring 100% Capital	28,366		28,366	33,972	36,422	34,057	27,862	21,971
30	Capital Available (a)	383,101	23,572	406,673	402,056	425,464	503,558	613,461	740,148
31	Minimum Capital Required (100% MCT) (b)	345,847	5,526	351,373	430,291	447,874	470,105	492,650	522,657
32	MCT Ratio % (a) / (b)	110.8%	5.0%	115.8%	93.4%	95.0%	107.1%	124.5%	141.6%

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Figure 5: PF- 1a Statement of Operations – IFRS 17 Presentation: -0.41% Basic Rate Change

2024 GRA - Basic rate change of -0.41% - With \$12.5 million reduction in corporate benefits expense

Line No. (C\$ 000s, rounding may affect totals)	For the Years Ended March 31,						
	<i>IFRS 17</i> <u>2023BF</u>	<i>IFRS 17</i> <u>2024F</u>	<i>IFRS 17</i> <u>2025F</u>	<i>IFRS 17</i> <u>2026F</u>	<i>IFRS 17</i> <u>2027F</u>	<i>IFRS 17</i> <u>2028F</u>	
1							
2	BASIC						
3	Insurance revenue	1,114,114	1,167,950	1,207,917	1,244,350	1,282,324	1,321,189
4	Insurance service expenses	1,175,699	1,135,789	1,175,265	1,208,924	1,232,814	1,266,567
5	Recovered claims from reinsurance contracts	-	-	-	-	-	-
6	Expenses from reinsurance contracts held	16,392	16,386	16,878	17,384	17,906	18,443
7	Insurance service result	(77,977)	15,775	15,774	18,042	31,605	36,180
8	Net investment income	(17,408)	125,721	127,554	132,700	139,305	148,807
9	Finance expenses from insurance contracts issued	(51,695)	94,975	83,577	79,516	82,963	86,176
10	Finance income from reinsurance contracts held	-	-	-	-	-	-
11	Net insurance finance expenses	(51,695)	94,975	83,577	79,516	82,963	86,176
12	Net insurance and investment result	(43,690)	46,520	59,752	71,226	87,946	98,811
13	Other Income	10,710	10,684	10,769	11,002	11,252	11,516
14	Other Operating expenses	44,053	50,248	46,415	46,925	45,936	46,063
15	Gain (loss) on disposal of property and equipment	-	-	-	-	-	-
17	Net Income (Loss) from Operations	(77,034)	6,956	24,107	35,303	53,262	64,265
18	Adjust for Initiative Expenses (BO 12.1 d)	-	(29,195)	(26,142)	(26,609)	(10,735)	(3,634)
19	Net Income (Loss) for for Rate Setting Purposes	(77,034)	36,151	50,248	61,912	63,997	67,899