

CAPITAL MANAGEMENT PLAN

Cara Low, Vice President & Chief Actuary & Chief Risk Officer
Ryan Kolaski, Vice President & Chief Financial Officer

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2024 General Rate Application



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Agenda

- Introduction
- Rate Stabilization Reserve
- Minimum Capital Test
- Proposed Capital Management Plan
- Application of the Capital Management Plan



Introduction

- MPI proposes a Capital Management Plan (CMP) that:
 - is consistent with section 18 of *The Manitoba Public Insurance Corporation Act*; and
 - complies with PUB Directives 12.12, Order 4/23.
- Proposed CMP establishes:
 - a means and pathway to achieve and maintain the capital level for the Basic Rate Stabilization Reserve (RSR) at a Minimum Capital Test (MCT) ratio of 100%;
 - criteria and processes under which MPI will apply to PUB for a capital rebate when RSR exceeds 120% MCT; and
 - the continued use of a capital build provision, when required, as approved in the 2020 GRA.



Rate Stabilization Reserve (RSR)



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Rate Stabilization Reserve

The purpose of the RSR is to:

“protect motorists from a rate increase that would otherwise have been necessary due to unexpected variances from forecasted results, and due to events and losses arising from non-recurring events or factors.”

- Accepted Actuarial Practice (AAP) pricing based on best estimate of expected claim and expense costs over the rating period.
- AAP does not account for unexpected adverse events such as:
 - High inflation
 - Reserve deficiencies on older claims
 - Natural catastrophes outside of our reinsurance program
- Unexpected costs funded by MPI’s capital base



Minimum Capital Test (MCT)



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Minimum Capital Test

Minimum Capital Test = Capital Available / Capital Required

Available Capital

- Mainly retained earnings, adjustments for Accumulated Other Comprehensive Income (AOCI) and intangible assets
- Called the Rate Stabilization Reserve (RSR) for the Basic Line of Business

Minimum Required Capital

- based on industry calculation determining capital required to cover various risk up to 99th percentile level, over one-year period



MPI's Risk Taxonomy

Level 1 Category Name	Level 2 Category Name
Operational Risk	People Risk
	Fraud Risk
	Physical Security & Safety Risk
	Technology Risk
	Information Security Risk (includes Cyber)
	Data Management Risk
	Legal Risk
	Financial Crime Risk
	Compliance Risk
	Third Party Risk
	Transaction Processing and Execution Risk
	Statutory Reporting and Tax Risk
	Model Risk
	Business Continuity Risk
	IT Disaster Recovery
Conduct Risk	
Strategy Risk	Strategic Risk
	Business Risk
Financial Risk	Market Risk
	Credit Risk
	Revenue Risk
Insurance Risk	Reinsurance Risk
	Pricing Risk
	Reserve Risk
	Catastrophe Risk



Capital Required – Office of the Superintendent of Financial Institutions (OSFI) MCT Guidelines

The minimum capital requirements are calculated as follows:

Sum of:

- i.) Capital required for insurance risk (reference chapter 4):
 - a. Capital required for unpaid claims and premium liabilities;
 - b. Margin required for reinsurance ceded to unregistered reinsurers;
 - c. Catastrophe reserves.
- ii.) Capital required for market risk (reference chapter 5):
 - a. Capital required for interest rate risk;
 - b. Capital required for foreign exchange risk;
 - c. Capital required for equity risk;
 - d. Capital required for real estate risk;
 - e. Capital required for other market risk exposures.
- iii.) Capital required for credit risk (reference chapter 6):
 - a. Capital required for counterparty default risk for balance sheet assets;
 - b. Capital required for counterparty default risk for off-balance sheet exposures;
 - c. Capital required for collateral held for unregistered reinsurance and self-insured retention (reference section 4.3.3).
- iv.) Capital required for operational risk (reference chapter 7).

Less:

- v.) Diversification credit (reference chapter 8).

Divided by 1.5.

Insurance Risks


- a. Reserve and Pricing Risk
- b. Reinsurance Risk
- c. Catastrophe Risk

Financial Risk

- a. Market Risk
- b. Credit Risk

Operational Risk but excludes reputational and strategic risk





Proposed Capital Management Plan



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Overview of the CMP

At a high level, CMP is a transparent policy to maintain RSR at 100% MCT while managing RSR surplus or deficit situations.

Surplus = rebates possible

Deficit = capital build provision

RSR Targets

Basic = 100% MCT

Rebates

Issued if Basic RSR exceeds 120% MCT

Capital Build Provision

If Basic RSR falls below 100% MCT + forecast has Basic not at 100% MCT within 5 years



Capital Transfers from Extension

Determination of Extension capital transfers to Basic as of fiscal year end:

- If Extension MCT > 200%, excess capital is transferred
- If Extension MCT < 200%, plan to restore MCT, no capital transferred
- If Extension MCT = 200% , no capital is transferred



Capital Rebate

The Manitoba Public Insurance Corporation Act, s. 18(4), establishes when MPI can issue a rebate from the RSR

- Rate stabilization reserve surplus 18(4) A rebate must not be paid from the rate stabilization reserve unless
 - (a) the reserve's MCT ratio exceeds 120% at the beginning of a fiscal year;
 - (b) the corporation applies to The Public Utilities Board for approval to pay the rebate;
 - (d) the rebate is not projected to reduce the reserve's MCT ratio to less than 100%.

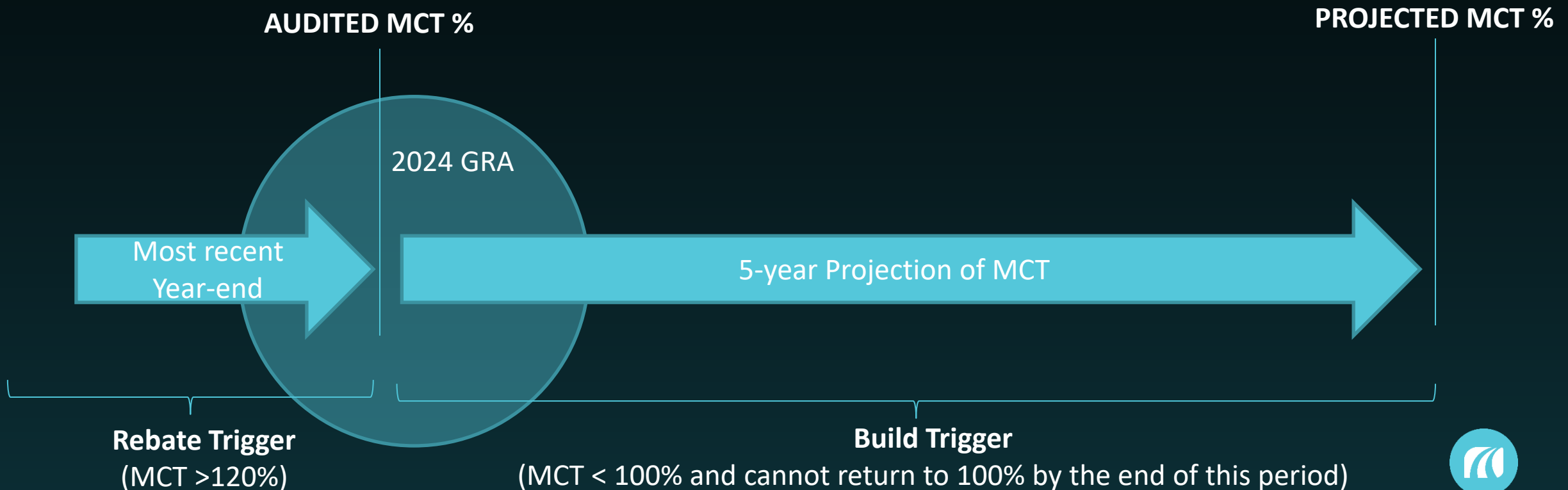
Rebate must not be paid from RSR unless:

- RSR exceeds 120% MCT at beginning of fiscal year AND rebate not projected to bring RSR below 100%; and
- Application to PUB for approval for rebate AND PUB approves rebate



Capital Build

- **Rebate Trigger** - based on most recent year end audited MCT
- **Capital Build Trigger** - based on 5-year projection (includes any assumed excess Extension transfers).





Application of the Capital Management Plan



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22/23 MCT – IFRS 4 (audited) to IFRS 9/17 (non-audited)

	IFRS 4	IFRS 17
Available Capital	383,101	462,363
Required Capital	345,847	341,329
Basic	110.8%	135.5%
Available Capital	74,948	52,544
Required Capital	37,107	38,446
Extension	202%	136.7%



Application of CMP – Audited Year End MCT

MCT Ratio Forecast – Before Forecasted Capital Transfers/Rebates

	22/23 – IFRS 4	23/24 – IFRS 17	24/25 – IFRS 17	25/26 – IFRS 17	26/27 - IFRS 17	27/28 – IFRS 17
Basic	110.8%	105.4%	98.9%	103.3%	113.1%	123.1%
Extension	202.0%	143.9%	188.7%	255.4%	340.1%	427.7%

MCT Ratio Forecast – After Forecasted Capital Transfer

	22/23 – IFRS 4	23/24 – IFRS 17	24/25 – IFRS 17	25/26 – IFRS 17	26/27 - IFRS 17	27/28 – IFRS 17
Basic	110.8%	105.4%	98.9%	108.7%	126.7%	144.6%
Extension	202.0%	143.9%	188.7%	200%	200%	200%

MCT Ratio Forecast – After Forecasted ~\$147M - 2026/27 Rebate

	22/23 – IFRS 4	23/24 – IFRS 17	24/25 – IFRS 17	25/26 – IFRS 17	26/27 - IFRS 17	27/28 – IFRS 17
Basic	110.8%	105.4%	98.9%	107.0%	100.0%	118.8%
Extension	202.0%	143.9%	188.7%	200%	200%	200%



Conclusion

MPI seeks alignment with PUB on following items:

- a) means and pathway to achieve and maintain Basic RSR at 100% MCT capital level;
- b) criteria and processes for MPI to apply for rebate when RSR exceeds 120% MCT; and
- c) continued use of capital build provision, when required, as approved in 2020 GRA.





Questions

