SUMMARY LEGAL APPLICATION

2022 SPECIAL REBATE APPLICATION

July 19, 2021

MANITOBA PUBLIC INSURANCE

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Summary Legal Application

LA.1 Legal Application

On June 17, 2021, the Government of Manitoba (the "Government") directed The Manitoba Public Insurance Corporation ("MPI") to distribute excess capital (as at March 31, 2021) from its universal compulsory automobile insurance line of business ("Basic") to ratepayers. MPI therefore applies to the Public Utilities Board of Manitoba ("PUB"), pursuant to section 44 of *The Public Utilities Board Act*, C.C.S.M. c. P280 and Rules 3(2), 4(1), 18, 36(1) and 40(2) of the PUB *Rules of Practice and Procedure*, for:

1. an Order dispensing with the requirement under Rule 36(3) that an application for review and variance be made within 30 days of the order or decision;

2. an Order that this Application be consolidated and/or heard together with the General Rate Application (GRA) filed by MPI on June 28, 2021 (the "2022 GRA") and directions on the procedure that will govern the conduct of this Application in any event;

3. an Order that any evidence tendered by MPI in the 2022 GRA, including any report, decision, finding or order made in respect thereof, be received as evidence in this proceeding (to the extent that it is relevant and necessary);

4. a review and variation of the Directives contained in PUB Orders Nos. 176/19, 146/20 and 1/21, to the extent that they do not direct MPI to issue to ratepayers, through a rebate, a uniform percentage of the Basic premiums earned from November 22, 2020 to December 09, 2021, for all vehicle classes (for clarity, the last rebate application approved by the PUB was for an assessment period ending November 21, 2020);

5. an Order that MPI issue to ratepayers a percentage of their Basic premiums earned from November 22, 2020 to December 09, 2021, for all vehicle classes, through a rebate in an amount needed to lower the Minimum Capital Test ("MCT") ratio of the Rate Stabilization Reserve ("RSR") to 100%, using the excess capital

MPI projects it will accumulate from March 31, 2021 to March 31, 2022[1]; as soon thereafter as is reasonably practicable.

As to the late filing of this Application, MPI respectfully submits it could not have reasonably anticipated or predicted the ongoing severity of the COVID-19 Pandemic (the "Pandemic") in Manitoba and, in particular, the continued Province-wide health restrictions, within 30 days of the issuance of PUB Orders No. 176/19, 146/20, 1/21 and 7/21. As a result, MPI could not have included the relief sought herein through the Special Rebate Application ("SRA") it filed on November 30, 2020 (the "2021 SRA II"). Finally, as a result of the Pandemic, the financial position of MPI continues to improve at a time when the financial position of many of its ratepayers substantially declined, creating again an urgent need for the requested relief.

Regarding the need to consolidate this Application or have it heard together with the 2022 GRA, MPI respectfully submits that doing so would be the most expeditious and least expensive means to determine the issues raised in each application. As will become apparent herein, the issues to be resolved in this Application are inextricably linked with the issues raised by the 2022 GRA. Further, the outcome of one application will materially impact the other. MPI submits that the relief it requests through the 2022 GRA is just and reasonable only if the PUB is also prepared to grant the rebate relief requested herein. Conversely, the amount of the proposed rebate may be different if the PUB were to approve a lower overall rate indication than what MPI seeks through the 2022 GRA.

The interconnectedness of the two applications currently before the PUB is perhaps best highlighted by the key relief sought by MPI in the 2022 GRA, namely, the removal of the 5% capital release. The amount of the estimated rebate is inversely proportional to no longer releasing capital under the provisions of the Capital Management Plan (CMP). That is, the two amounts behave opposite in nature, whereby unwinding the capital release provision allows for a greater rebate and puts premium dollars back into the hands of ratepayers more expeditiously.

[1] By Labour Day (September 6) - All services, facilities and businesses are expected to be reopen, with limited restrictions in some cases.

Similar to the 2021 SRA II, MPI makes this Application to the PUB at a time when the Pandemic presents Manitoba and Manitobans with many extraordinary challenges. As of this writing, nearly 1,200 Manitobans have died of the COVID-19, while countless more suffer from the lasting effects of the virus. The third wave struck Manitoba particularly hard, overwhelming its hospitals and Intensive Care Units ("ICUs") and forcing the closure of schools, businesses, sports and other activities across the Province. Despite this, MPI believes there is reason to be cautiously optimistic about the future. Currently, more than 76% of eligible Manitobans have received at least one dose of the COVID-19 vaccine and more than 58% have received two doses. COVID-19 infection rates, hospitalizations (including admissions into ICUs) and deaths are falling. The Government eased and continues to ease public health restrictions. The Government also lowered its Pandemic Response System from a Response Level Red (Critical) to a Response Level Orange (Restricted). For many Manitobans (especially those who are fully vaccinated), life is now beginning to return to normal

This is not to say that the impacts of the Pandemic on MPI are over. MPI continues and will continue to be affected by the Pandemic for an unknown period of time, in both direct and indirect ways. Directly, the Pandemic impacts its claims experience. Accurately predicting when the frequency and magnitude of claims costs will return to normal is very difficult, so MPI implemented a conservative approach to ensure it can respond to a variety of outcomes. Indirectly, the imposition or lifting of health restrictions impacts local, national and international markets, which ultimately affects the value of MPI's investment portfolio (positively or negatively). MPI submits that the PUB should be mindful of this context when assessing the reasonableness of the requested rebate. This Application requests a rebate calculated on the basis of actual and projected excess capital available from Basic. As at March 31, 2021, Basic has approximately $155 million in excess capital. As per *Figure 1* below, by March 31, 2022, MPI currently forecasts that this excess capital will grow by $47 million, to $202 million. MPI expects to update its forecasting and rebate request in advance of the hearing of the 2022 GRA to ensure it is as accurate as possible.

Figure 1 Comparisons of Special Rebate Applications

Line No.		2021 SRA II	2022 SRA
1	Entitlement Period	March 16, 2020 -	November 22, 2020 -
2	(policy in force and earning premium)	November 21, 2020	December 09, 2021
3	Savings Period for Purpose of	May 16, 2020 -	November 22, 2020 -
4	Calculating Rebate Amount	March 31, 2021	March 31, 2022
5	Rebate Requested or Forecasted	$69 million	$202 million

Finally, this Application is *not* a request by MPI to amend any of the relief it requested in the 2022 GRA. To be clear, MPI continues to seek a -2.8% overall rate indication for the period April 1, 2022 to March 31, 2023, an extension of its CMP for another rating year along with the other relief requested in that application.

LA.2 Financial Status of MPI

Based on year-end results, as at March 31, 2021, MPI accumulated $155 million of excess capital in its RSR. Additionally, it currently forecasts this excess capital to grow by $47 million to $202 million by March 31, 2022. This forecast assumes that the PUB will approve the -2.8% overall rate indication requested in the 2022 GRA.

MPI submits that its ability to request this substantial rebate results primarily from its favourable claims experience (due to public health restrictions imposed during the third wave of the Pandemic), coupled with better than expected operating expenses. As such, this rebate request is comprised primarily of savings from lower than expected claims costs and higher than expected operating expense savings.

The MCT ratio of the RSR remains significantly higher than its 100% target[2] under the CMP. Given the continued unpredictability of the Pandemic, MPI presents its proposed rebate on a *provisional* basis. Prior to the hearing of the 2022 GRA, MPI will update its expense, revenue, investment, and claims forecasts and determine the final amount of the requested rebate. MPI will base its updated request primarily on July 31 actuals as

[2] The RSR is currently at an MCT ratio of 100%, and is forecasted to grow to 109% by the end of the 2022 rating year, including the currently estimated rebate of $202 million – please see 2022 GRA PF.3 .

well as interest rates as at August 31. On or about October 1, 2021, MPI will file the following schedules in furtherance of this initiative:

1. **PF-1, 2, 3**: Pro Formas Statements;
2. **EPF-1, 3**: Extension Pro Formas 1 & 3;
3. **RM-1**: Indicated Rate Change;
4. **RM-12/13**: Overall and Major Class Required Rate Changes (with and without capital provisions);
5. **RM-18, 19, and 20**: Summary of Premium Increases/Decreases by Major Class, Territory and Vehicle Type, Dollar and Percent Distribution
6. **RM-14**: Major Class Summary Report; and
7. **INV-13**: Updates based on interest rates.

In addition to the above, MPI will also provide a schedule with the average rebate by major class.

MPI will maintain the MCT ratio of the RSR at 100%, as per its obligation under the *Reserves Regulation,* Man. Reg. 76/2019 (the "Reserves Regulation"). Therefore, MPI respectfully submits that the PUB should determine the rebate amount concurrently or immediately following its determination of the overall rate indication MPI seeks approval of in the 2022 GRA. MPI does not expect the capital position of Basic (and its ability to pay future claims) to deteriorate significantly or at all as a result of the proposed rebate. As premiums received during the COVID-19 pandemic exceeded what was needed to cover the cost of claims – the excess would normally flow back to ratepayers in the form of future rate decreases, through the CMP. The proposed rebate, following an approach similar to the one approved by the PUB in the 2021 SRA I and II, will accelerate the distribution of excess monies to ratepayers in the form of a one-time payment, instead of through lower future rates.

With its 2022 GRA, MPI filed a comprehensive set of statements and evidence that also underpin or relate to this SRA. MPI respectfully requests that this evidence also be received by the PUB for use in this application. Additionally, MPI updated the exhibits that follow, acknowledging similar requests in previous SRAs.

LA.2.1 Total Earned Revenues - Basic

The following figure shows the forecasted revenues, assuming the -2.8% overall rate change for the 2022/23 rating year and 0% rate change thereafter:

Figure 2 Total Earned Revenues – Basic

Line No.	Fiscal Year	2020/21	2021/22	2022/23	2023/24	2024/25
2	***($000)***					
3	**2022 GRA**	1,146,260	1,144,838	1,144,931	1,199,466	1,243,011
4	**2021 SRA II**	1,150,746	1,135,434	1,128,735	1,169,362	1,211,280
5	**Change**	(4,486)	9,404	16,196	30,104	31,731

MPI projects its 2021/22 Basic Total Earned Revenues to be $1.14 billion, or approximately 1% higher than it did in the update filed on November 30, 2020 in the 2021 SRA II. This change results primarily from the fact that 2020/21 actual premiums were higher than forecasted and partially offset by lower than expected driver premiums.

In 2022/23 and beyond, MPI expects earned premiums to be higher mainly due to the anticipated elimination of the 5% capital release provision and the greater than expected 2021/22 premiums. However, as indicated above, this additional capital will be captured in the projected rebate of $202 million. MPI further expects that this increase will be partially offset by lower than expected driver premiums resulting from an anticipated increase in movement up the Driver Safety Rating (“DSR”) scale caused by lower collision frequency in 2020/21.

Figure 3 Layup Transactions by Month

Line No.			Layups							
	Month	**2017**	**2018**	**YoY (%)**	**2019**	**YoY (%)**	**2020**	**YoY (%)**	**2021**	**YoY (%)**
1	January	7,502	7,821	4%	8,221	5%	8,252	0%	5,972	-28%
2	February	4,717	4,670	-1%	5,335	14%	5,241	-2%	4,668	-11%
2	March	8,135	7,272	-11%	8,323	14%	11,252	35%	10,733	-5%
3	April	16,350	16,639	2%	18,099	9%	19,122	6%	13,890	-27%
4	May	12,676	13,350	5%	13,378	0%	16,135	21%	11,909	-26%
5	June	8,176	8,288	1%	8,467	2%	11,527	36%	8,686	-25%
6	July	5,999	6,269	5%	7,060	13%	8,191	16%		
7	August	5,761	6,302	9%	6,224	-1%	6,568	6%		
8	September	7,324	8,185	12%	8,078	-1%	8,408	4%		
9	October	14,543	14,996	3%	16,598	11%	16,953	2%		
10	November	15,094	14,199	-6%	12,925	-9%	13,483	4%		
11	December	8,206	8,725	6%	8,915	2%	8,160	-8%		
12	**TOTAL**	**114,483**	**116,716**	**2%**	**121,623**	**4%**	**133,292**	**10%**	**55,858**	**-58%**

As illustrated in the above figure, also contributing to revenue increases is the impact of layup transactions. In the 2021/22 fiscal year, layup transactions have declined sharply compared to the previous year, the net impact of which is an increase in premiums. However, despite this decline (and the increase in coverages), MPI also saw more policy cancellations within this time, as depicted in *Figure 4*, below:

Figure 4 Cancelations Transactions by Month

Line No.			Cancelations							
	Month	**2017**	**2018**	**YoY (%)**	**2019**	**YoY (%)**	**2020**	**YoY (%)**	**2021**	**YoY (%)**
1	January	13,505	13,573	11%	15,133	11%	14,404	-5%	13,915	-3%
2	February	11,365	11,353	12%	12,719	12%	12,730	0%	12,256	-4%
2	March	12,526	12,912	7%	13,761	7%	14,121	3%	15,469	10%
3	April	13,746	14,051	10%	15,402	10%	13,498	-12%	15,233	13%
4	May	14,690	14,619	6%	15,557	6%	12,942	-17%	14,600	13%
5	June	14,457	14,435	-1%	14,263	-1%	14,891	4%	15,088	1%
6	July	13,460	14,889	1%	15,099	1%	16,308	8%		
7	August	14,352	15,835	-3%	15,439	-3%	15,222	-1%		
8	September	15,540	15,766	3%	16,236	3%	16,676	3%		
9	October	17,098	18,934	-1%	18,679	-1%	18,786	1%		
10	November	17,652	18,217	-3%	17,623	-3%	16,523	-6%		
11	December	13,704	14,430	0%	14,430	0%	14,112	-2%		
12	**TOTAL**	**172,095**	**179,014**	**4%**	**184,341**	**3%**	**161,181**	**-13%**	**86,561**	**-46%**

For 2022/23 and thereafter, MPI will continue to monitor and adjust its revenue forecast as necessary to ensure that it continues to represent a best estimate. MPI will report any changes in the 2023 GRA.

LA.2.2 Claims Incurred Before Provisions

Figure 5 Claims Incurred before Provisions – Basic

Line No.						
1	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
2	***($000)***					
3	**2022 GRA**	620,145	839,934	904,591	941,024	980,586
4	**2021 SRA**	726,131	907,409	921,285	953,995	986,447
5	**Change**	(105,986)	(67,475)	(16,694)	(12,971)	(5,861)

Relative to the rate update provided with the 2021 SRA II, MPI forecasts a $67 million improvement in claims incurred before provisions (i.e. before interest rate impacts and Deferred Premium Acquisition Cost (DPAC) adjustments) in the fiscal year 2021/22.

In the fiscal year 2022/23 and thereafter, the current Basic forecast is 1% to 2% lower than forecasted in the 2021 SRA II. MPI submits that this forecasting methodology remains consistent and aligned to the evidence received by the PUB in the 2022 GRA.

Figure 6 below shows the observed reduction in ultimate collision claims for the 2020/21 insurance year (comparing Figure CI-12 from 2022 GRA to Figure CI-11 from 2021 GRA), as well as the expected impacts to Bodily Injury (BI) and Property Damage (PD) claims. As indicated, MPI adjusted its forecast for the 2022 GRA to lower the Basic ultimate collision claims by 6% as compared to the 2021 GRA. This translates to a savings of $36.2 million in respect of Basic ultimate collision costs, in addition to PD savings of $4.2 million.

Figure 6 Claims Incurred before Provisions Forecast – 2022 GRA compared to 2021 GRA

Line No.	Fiscal Year	2021/22	2022/23	2023/24	2024/25
1	*($000)*				
2	Weekly Indemnity	($380)	$4,697	$8,706	$10,880
3	ABO - Indexed	($6,010)	($1,330)	$275	$1,360
4	ABO – Non-Indexed	($4,749)	($2,073)	($1,838)	($1,745)
5	PIPP Enhancements	$207	($88)	$118	$1,823
6	Public Liability - BI	$210	$321	$550	$759
7	Collision	($36,184)	($10,263)	($11,130)	($11,775)
8	Comprehensive	($2,062)	($2,628)	($2,945)	($3,299)
9	Property Damage	($4,230)	($1,062)	($1,035)	($998)
10	Basic Total	($53,198)	($12,427)	($7,298)	($2,995)

Providing further detail, *Figure 7* shows the budget for Basic Collision Incurred, on a financial reporting basis, as well as the actuarial views for the 2022 GRA and the most current forecast, prepared for this Application. The column titled: 'Total Claims Counts', includes all claims counts as part of the financial reporting view, and is not exclusive to collision claims.

Figure 7 Budgeted Claims - Basic Collision

					2021/22 Budget			2022 GRA	
Line No.	Reported Month	Direct Basic Collision Incurred	Total Claims Count	Accident Month	Collision Incurred	Collision Claim Counts	Accident Month	Collision Incurred	Collision Claim Counts
1	Apr-20	$31,555,949	21,375	Apr-20	$15,826,680	4,019	Apr-20	$15,538,461	3,939
2	May-20	$29,999,545	26,361	May-20	$19,339,451	5,043	May-20	$18,911,783	4,931
3	Jun-20	$29,963,557	28,108	Jun-20	$24,789,872	6,344	Jun-20	$24,509,482	6,284
4	Jul-20	$32,120,691	27,816	Jul-20	$27,479,811	6,732	Jul-20	$27,515,991	6,730
5	Aug-20	$32,394,818	28,272	Aug-20	$26,969,178	6,598	Aug-20	$27,091,030	6,599
6	Sep-20	$34,187,907	24,644	Sep-20	$28,111,694	6,733	Sep-20	$28,398,902	6,757
7	Oct-20	$39,498,048	25,204	Oct-20	$35,269,964	7,933	Oct-20	$35,225,007	7,996
8	Nov-20	$44,780,915	24,445	Nov-20	$28,389,795	5,917	Nov-20	$28,509,377	6,098
9	Dec-20	$50,065,715	23,298	Dec-20	$33,109,971	6,892	Dec-20	$32,870,520	7,068
10	Jan-21	$55,351,829	26,875	Jan-21	$30,310,951	6,603	Jan-21	$29,912,910	6,802
11	Feb-21	$43,085,903	21,268	Feb-21	$29,288,979	6,994	Feb-21	$28,509,208	7,098
12	Mar-21	$40,933,158	22,472	Mar-21	$32,673,338	7,906	Mar-21	$27,043,964	6,486
13	Apr-21	$24,392,117	10,770	Apr-21	$25,094,722	6,237	Apr-21	$21,987,607	5,526
14	May-21	$27,376,512	18,584	May-21	$27,680,492	6,622	May-21	$24,207,352	5,867
15	Jun-21	$28,138,600	21,998	Jun-21	$29,577,679	6,873	Jun-21	$25,959,187	6,109
16	Jul-21	$29,632,911	23,576	Jul-21	$29,447,374	6,848	Jul-21	$28,956,341	6,853
17	Aug-21	$30,085,463	24,463	Aug-21	$29,590,470	6,790	Aug-21	$29,319,113	6,802
18	Sep-21	$31,563,736	24,599	Sep-21	$31,255,028	7,013	Sep-21	$30,870,126	6,987
19	Oct-21	$40,299,630	27,220	Oct-21	$41,452,267	9,020	Oct-21	$41,685,632	9,152
20	Nov-21	$45,821,828	27,456	Nov-21	$48,512,026	9,960	Nov-21	$48,149,234	9,985
21	Dec-21	$45,139,650	26,617	Dec-21	$53,074,039	11,541	Dec-21	$52,082,316	11,566
22	Jan-22	$53,661,314	30,596	Jan-22	$50,573,731	11,430	Jan-22	$50,305,665	11,572
23	Feb-22	$40,888,522	25,448	Feb-22	$41,584,459	9,643	Feb-22	$41,290,972	9,729
24	Mar-22	$37,518,278	25,784	Mar-22	$33,853,643	8,008	Mar-22	$32,799,535	7,880

LA.2.3 Investments

In November 2017, MPI conducted an Asset Liability Management (ALM) study, with the assistance of Mercer. As a result of the implementation of the recommendations of the ALM Study, MPI backed Basic liabilities exclusively with fixed income assets in the Basic Claims portfolio, beginning March 1, 2019. The Basic Claims portfolio shows a very reasonable return on investment ("ROI"), outperforming the benchmark portfolios in British Columbia (Insurance Corporation of British Columbia) and Saskatchewan (Saskatchewan Government Insurance).[3] Over the 12 months ended at March 31, 2021 the Basic Claims portfolio had an ROI of 3.3%, outperforming its policy benchmark by 0.9%[4]. The RSR and EFB portfolios had strong ROIs of 11.8%

[3] See 2022 GRA, Investments 10.8 at pages 56 and 57;
[4] See 2022 GRA, Investments, Appendix 9

and 12.6% respectively, but underperformed their respective benchmarks due to the underperformance of small-cap Canadian and global equities.

MPI also enhanced the Basic Claims portfolio with a 20% allocation to corporate bonds (which at May 31, 2021 yielded 3.11% compared to 2.30% for government bonds).

The ALM strategy ensures that investment losses in the Basic Claims portfolio are offset by the corresponding reduction of the Basic Claims liabilities, since both are interest rate sensitive and have similar duration and size.

The investment income allocated to Basic for fiscal year 2020/21 is $89.5 million – see *2022 GRA, Figure INV-1*. In the 2022 GRA, MPI forecasts investment income to be $100.5 million for 2021/22 and $99.7 million for 2022/23[5].

MPI has significant cash and premium revenues it can use to fund the requested rebate. As at June 30, 2021, MPI holds $156.0 million of operational cash. It further expects that its cash reserve will increase by a sufficient amount between this date and the date on which it begins to mail out rebate cheques. In preparation for the distribution of a third rebate, MPI will optimize the investment of this excess cash in liquid short-term instruments to ensure the necessary funds will be available without impacting the health of the investment portfolio.

While MPI does not expect the requested rebate to impact the performance of the various asset classes in each of the portfolios, it nonetheless provides an updated snapshot of the values of these portfolios, as at May 31, 2021:

[5] See 2022 GRA, Investments Figure INV-1

Figure 8 Investment Fund Preliminary Valuations

Line No.	Fiscal Year	March 31, 2021	April 30, 2021	May 31, 2021	Monthly Change May-April	Capital Return
1	***($000)***					
2	**Basic**	2,078.4	2,085.5	2,104.1	18.6	0.89%
3	**Extension**	172.2	182.1	184.7	2.6	1.45%
4	**SRE**	240.1	257.3	260.7	3.4	1.33%
5	**RSR**	554.9	557.4	568.0	10.6	1.90%
6	**EFB**	509.3	512.5	517.1	4.6	0.90%
7	**Total**	3,555.0	3,594.8	3,634.7	39.8	1.11%

MPI provided a robust analysis of its investments in the normal course in the 2022 GRA. This analysis continues to represent the best estimate available to MPI. By this Application, MPI does not propose any change to its investment forecasts nor to its strategy. The proposed rebate will have no adverse effect on the Investment Fund or on ratepayers, in either the 2022 GRA or in upcoming rate applications.

LA.2.3.1 Investment Income Excluding Interest Rate Impacts

Figure 9 Investment Income Excluding Interest Rate Impacts

Line No.	Fiscal Year	2020/21	2021/22	2022/23	2023/24	2024/25
1	***($000)***					
2	**2022 GRA**	88,878	100,008	99,241	101,041	102,664
3	**2021 SRA II**	80,960	90,180	89,068	88,106	87,969
4	**Change**	7,918	9,828	10,173	12,935	14,695

MPI provided[6] a thorough schedule of investment income separated out by Basic Claims, RSR and Employee Future Benefits. MPI submits that this evidence continues to support the reported investment income to Basic.

MPI uses the following key assumptions for investment forecasts:

- Naïve interest rates;

[6] Refer to 2022 GRA, Investment Appendix 9 Benchmark Returns.

- Equity returns based on 5th percentile 20-year Canadian equity return (6.6% per year);
- Infrastructure and real estate based on inflation + 5% and inflation + 4% respectively; and
- Target weights for each asset class as per Section 7.0 of the Investment Policy Statement.

LA.2.4 Net Interest Rate Impact

Figure 10 Net Interest Rate Impact

Line No.	Investment Income - Interest Rate Impact Fiscal Year	2020/21	2021/22	2022/23	2023/24	2024/25
1	*($000)*					
2	**2022 GRA**	650	541	483	(9)	(10)
3	**2021 SRA II**	128,869	445	24	(10)	(55)
4	**Change**	(128,219)	96	459	1	45
6	**Claims Incurred - Interest Rate Impact**					
7	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
8	*($000)*					
9	**2022 GRA**	44,194	12,477	11,681	11,753	10,044
8	**2021 SRA II**	163,601	2,551	20,535	15,260	15,300
11	**Change**	(119,407)	9,926	(8,854)	(3,507)	(5,256)
12	**Net Interest Rate Impact**					
13	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
14	*($000)*					
15	**2022 GRA**	(43,544)	(11,936)	(11,198)	(11,762)	(10,054)
16	**2021 SRA II**	(34,732)	(2,106)	(20,511)	(15,270)	(15,355)
17	**Change**	(8,812)	(9,830)	9,313	3,508	5,301

MPI hedges its Basic claims portfolio against the impact of interest rates. As shown in *Figure 10* above, the net impact of changes in interest rates on the fixed income portfolio and on claims liabilities remains stable year over year, relative to the SRA II forecast. This supports the effectiveness of the Basic claims ALM program and the claim that the portfolio can withstand the most significant shocks to interest rates.

Again, MPI provides this information herein only to satisfy the PUB that the proposed rebate and the release of significant capital held by Basic will not have an adverse effect on the investment portfolio(s) going forward.

LA.2.5 Net income

The following figure shows the forecasted net income, assuming the -2.8% rate change and elimination of the capital release provision for the 2022/23 rating year and 0% rate change thereafter:

Figure 11 Net Income – Basic

Line No.	Fiscal Year	2020/21	2021/22	2022/23	2023/24	2024/25
1	***($000)***					
2	**2022 GRA**	290,782	67,314	4,623	10,285	4,209
3	**2021 SRA II**	186,793	8,972	(42,282)	(50,147)	(52,791)
4	**Change**	103,989	58,342	46,905	60,432	57,000

MPI net income for 2020/21 is higher than expected by approximately $104 million compared to the forecasted net income provided in 2021 SRA II. As discussed above, relative to the 2021 SRA II, MPI experienced a greater decrease in claims costs, which it expects will last, at least to some degree, until September 30, 2021.

In 2021/22, MPI projects a Basic net income of $67.3 million, or approximately $58.3 million greater than forecasted in the 2021 SRA II. This increase is primarily due to lower than expected claims due to revised COVID – 19 assumptions. Please refer to *Pro Forma PF 5, lines 24 to 32* for the detailed explanation on this item.

In 2022/23 and thereafter, the net income differences are primarily due to the combination of the elimination of the 5.0% capital release provision and lower than expected claims costs. The removal of the capital release provision from premiums increases forecasted premiums and, coupled with an expected decrease in claims costs, favourably affects net income.

LA.3 Capital Management Plan

The requested rebate does not depend on cash transfers under the CMP. The projected $202 million rebate from Basic results from excess Basic capital (i.e. >100% MCT) in the 2020/21 fiscal year and anticipated excess Basic capital (i.e. >100% MCT) in fiscal year 2021/22. A large portion of the excess capital is comprised of favorable net income (i.e. lower claims costs) related to the Pandemic, but also includes various impacts related to the MCT calculation, including the removal of anticipated transfers of capital from Extension.

As per the *Reserves Regulation,* MPI must target a Basic MCT ratio of 100%. Currently, MPI achieves this target through execution of the CMP. The figure below shows the forecasted impact of the proposed rebate on Basic Total Equity and the MCT ratio:

Figure 12 Total Equity and MCT

Line No.						
	Basic Total Equity					
1	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
2	***($000)***					
3	**2022 GRA**	433,835	454,768	501,639	562,721	624,657
4	**2021 SRA II**	504,854	553,013	553,210	548,106	542,722
5	**Change**	(71,019)	(98,245)	(51,571)	14,615	81,935
6	**Transfer from Extension**					
8	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
8	***($000)***					
9	**2022 GRA**	-	-	39,301	46,681	53,021
10	**2021 SRA II**	59,426	31,689	36,384	39,978	42,340
11	**Change**	(59,426)	(31,689)	2,917	6,703	10,681
12	**Basic Rebate**					
13	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
14	***($000)***					
15	**2022 GRA**	(282,626)	(47,330)	-	-	-
16	**2021 SRA II**	(127,000)	-	-	-	-
17	**Change**	(155,626)	(47,330)	-	-	-
18	**MCT Ratio**					
19	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
20	**2022 GRA**	100.0%	100.0%	101.5%	109.2%	119.1%
21	**2021 SRA II**	116.5%	111.1%	105.5%	101.6%	99.0%
22	**Change**	-16.5%	-11.1%	-4.0%	7.6%	20.1%

As shown in *Figure 12* above, following the issuance of the requested rebate, MPI forecasts Total Equity at the end of fiscal year 2023/24 to be $562.7 million, equating to an MCT Ratio of 109.2%. The increasing MCT ratio is primarily due to the expected resumption of extension capital transfers commencing in 2022/23 and onward. MPI will calculate the final rebate amount on October 1, 2021, which should reduce the forecasted MCT ratio of the RSR from its current value to 100% at the end of fiscal year 2021/22.

The primary focus of MPI is to provide an optimal rebate in conjunction with the most updated and accurate rate requirement. Accordingly, MPI will provide updates to both the 2022 GRA overall rate indication and this proposed rebate on October 1, 2021; based on July 31 actuals and August 31 interest rates.

MPI submits that this updated forecast will be its best estimate. It anticipates that the Basic RSR will continue to remain at or near the 100% MCT target for at least the near term.

LA.3.1 Extension

The rebate MPI proposes herein does not depend on or relate to any excess amounts from the reserves of its Extension line of business or on the use of capital transfers under the CMP. *Figure 13* below, shows that overall Extension forecast should remain relatively unchanged from the 2021 GRA Rate Update.

Figure 13 Extension Capital Transfers

Line No.						
				Extension Net Income		
1	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
2	***($000)***					
3	**2022 GRA**	55,690	57,236	47,727	50,928	55,697
4	**2021 SRA II**	55,494	44,346	39,312	41,602	45,871
5	**Change**	196	12,890	8,415	9,326	9,826
6				**Extension MCT Ratio**		
7	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
8	***($000)***					
9	**2022 GRA**	196.2%	200.0%	200.0%	200.0%	200.0%
10	**2021 SRA II**	200.0%	200.0%	200.0%	200.0%	200.0%
11	**Change**	-3.8%	0.0%	0.0%	0.0%	0.0%
12				**Extension Capital Transfers and Rebates**		
13	**Fiscal Year**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
14	***($000)***					
15	**2022 GRA**					
16	**Capital Transfer to DVA**	(60,000)	(53,494)	-	-	-
17	**Capital Transfer to Basic**	-	-	(39,301)	(46,681)	(53,021)
18	**Rebate**	(52,322)	-	-	-	-
19	**Total**	(112,322)	(53,494)	(39,301)	(46,681)	(53,021)
20	**2021 SRA II**					
21	**Capital Transfer to DVA**	-	-	-	-	-
22	**Capital Transfer to Basic**	(59,426)	(31,689)	(36,384)	(39,978)	(42,340)
23	**Rebate**	(52,000)	-	-	-	-
24	**Total**	(111,426)	(31,689)	(36,384)	(39,978)	(42,340)
25	**Capital transfer/rebate change**	(896)	(21,805)	(2,917)	(6,703)	(10,681)

In 2020/21, the total capital transfer and rebate amounts resemble the forecasted amounts MPI provided in the 2021 SRA II. However, as indicated in the 2022 GRA, MPI directed the Extension capital transfer to its administration of The *Drivers and Vehicles Act* (“DVA”) line of business, rather than to Basic. MPI uses the same capital transfer approach again in 2021/22, although the amount of the capital transfer to DVA is approximately $21.8 million greater versus the forecast provided in the 2021 SRA II. This difference is mainly due to greater than expected Extension net income and the impacts of the MCT calculation.

In 2022/23 and thereafter, MPI again forecasts a transfer of all excess Extension capital to Basic such that the Extension MCT ratio remains at 200%, consistent with the 2022 GRA and the CMP.

LA.4 Rebate Rules

As previously indicated, MPI will calculate the final amount to rebate on October 1, 2021. This amount will capture the improvements in claims incurred before provisions (i.e. before interest rate impacts and DPAC adjustments) and anticipated favourable operating expenses as at July 31. The rationale for the proposed rebate is that, given the reduced claims costs and operating expenses, customers would have paid significantly less to insure their motor vehicles between November 22, 2020, and December 09, 2021 had MPI calculated premiums on a monthly (as opposed to annual) basis.

As a result, MPI proposes a rebate to Basic customers who had a policy that earned premiums between November 22, 2020 and December 09, 2021. As indicated, MPI currently estimates the amount of this rebate to be $202 million.

Additionally, MPI proposes that this rebate benefit *all* vehicle classes. This is because MPI intends for this rebate to provide relief to all customers who overpaid for insurance as a result of the Pandemic. If a policy did not earn premium during this period, the customer paid no premium and should therefore not be entitled to financial relief. The qualification period in this Application is similar to the period identified in the 2021 SRA II and includes the traditional riding earning period for motorcycles.

LA.5 Implementation Strategy

In considering the relief requested in this Application, MPI suggests that it follow a similar approach used for the 2021 SRA II, as it represents a proven and prudent strategy for the actual distribution of approved rebates to entitled customers. Below, MPI outlines its implementation strategy, which incorporates the lessons learned from both 2021 SRA I and II; and discusses how it plans to resolve any problems as they arise.

As indicated, MPI requests approval to issue a rebate in an amount to be calculated on October 1, 2021, the amount needed to reduce the MCT ratio of the RSR to 100%. MPI proposes that it rebate this amount to its customers in January 2022. It anticipates that the primary source of funding for this rebate will be excess cash and premium revenues.

The next question is who will qualify for the rebate and the rules for establishing entitlement. As explained above, a policyholder is qualified to receive a rebate if they had a Basic policy in force and earning premiums between November 22, 2020 and December 09, 2021. Using this rule, MPI expects approximately 675,000 customers will qualify for a rebate.

Once qualified, MPI will calculate the amount of the rebate to which each customer is entitled (applying any setoff as required). MPI will then distribute rebate cheques to qualified customers via regular mail, to their last known address on file.

MPI anticipates that the total cost of issuing the rebates will be approximately $973,000, itemized as follows (assuming 675,000 different recipients):

Figure 14 Rebates Cost

Line No.	Description	Cost
1	Cost of Purchasing and Printing Cheques	300,000
2	Postage	623,000
3	Administrative Costs (effort)	50,000
4	**Total Cost**	**973,000**

In the 2021 SRA I and II, MPI outlined the various problems it anticipated could arise during the implementation phase of the rebate initiative, as well as its proposed solutions. This time around, MPI suggests that it avoid issuing rebate cheques during a peak holiday season, as occurred in the 2021 SRA II. Instead, MPI proposes that it issue cheques in January 2022. Proceeding in this fashion would alleviate the need for staff to work additional overtime to compensate for lower capacity due to scheduled vacations.

As MPI successfully implemented the rebate using these and other solutions in the past two SRAs, it proposes that same procedure be used for this rebate.

LA.5.1 Communication Strategy

MPI developed an effective communication strategy for the issuance of the past two rebates and proposes use of that same strategy in respect of this rebate.