

October 3, 2012

Undertaking # 15

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MPI to outline Mr. Parkinson's evidence in terms of his role and the role of the consulting actuary.

RESPONSE:

See the attached response to PUB (MPI) 1-28 from the 2012 GRA and excerpts from the transcripts of the 2012 GRA.

PUB (MPI) 1-28**Reference: AI.13**

- (a) Please describe the timing and scope of valuation-related work undertaken over the course of a typical fiscal year.
- (b) Please summarize the respective roles and responsibilities of MPI's external valuation actuary, KPMG's AuG43 actuarial specialist, and MPI's internal actuarial resources at each point of involvement in the valuation process in a typical fiscal year.
- (c) Please describe how the preparation of each set of unaudited quarterly financial statements is affected by this valuation process.
- (d) Please provide a copy any reports prepared by KPMG's AuG43 actuarial specialist with respect to the review of the valuation at 31 October 2010 and/or the valuation at 28 February 2011.

RESPONSE:

- (a) A thorough review of the assumptions (loss development factors, PFAD ratios, etc.) and methodology in regards to the Review of Policy Liabilities is done in the months of November to December based on figures as at October 31. This review is performed by Ernst and Young LLP (E&Y) using inputs provided by the Corporation. This review is presented in AI.13A.

An update to the review is done by E&Y in March based on figures as at year-end, i.e. February 28/29. This review is presented in AI.13B. Apart from minor changes to the assumptions, resulting from the benefit of an additional four months of data and updating the interest rates, the assumptions and methodology pertaining to this review are generally similar to that of the October 31 review.

Both the Review of Policy Liabilities as of October 31 and February 28/29 are provided (when completed) to KPMG to be audited by their actuaries. Questions arising from the audit are typically addressed to E&Y unless it pertains to the inputs provided by the Corporation.

Two other reviews are done in the months of May and August based on figures as at April 30 and July 31 respectively. These reviews are done by the Corporation's internal actuarial department. Apart from updating the underlying data and the interest rates, no other changes are made to the assumptions and methodology used in the review as of Feb 28/29. These two reviews are not reviewed by the external actuary or the AuG-43 actuarial specialist.

(b) Corporation's Internal Actuarial Department:

- The Manager of Actuarial Services (FCAS) and an internal Actuarial Analyst represent the Corporation's Actuarial Department for the purposes of the Review of Policy Liabilities.
- Assists E&Y in the preparation of the Review of Policy Liabilities as at October 31 and February 28/29.
- Collects necessary data from the Corporation's data warehouse, Finance department, and injury claims departments (2 weeks).
- Prepares first draft of actuarial report, revising and documenting prior assumptions as deemed appropriate. The first draft is presented to the Appointed Actuary for review and discussion (1-2 weeks).
- Conducts conference call meetings and email exchanges between the Corporation's actuarial department and the Appointed Actuary and their staff.
- Works as liaison between the Appointed Actuary and internal claims staff (e.g. collecting further details on serious loss claims).
- Makes revisions to first draft based on changes requested by the Appointed Actuary (1-2 weeks).
- April and July reports: Prepares the Review of Policy Liabilities as at April 30 and July 31 (4 weeks).

Corporation's External Actuary – Ernst & Young LLP:

- Prepares the Review of Policy Liabilities as at October 31 and February 28/29.
- Reviews the drafts prepared by the Corporation's internal actuarial department.
- Conducts conference call meetings and email exchanges between the Corporation's internal actuarial department.

- Makes revisions to the draft reports as necessary.
- Provides an opinion on the required provision for unpaid claim liabilities and unearned premium liabilities as at year-end February 28/29 that is in accordance with Canadian Actuarial Standards of Practice.

External Auditors – KPMG:

- Reviews the Policy Liabilities as at October 31 and February 28/29 as prepared by Ernst & Young LLP to ensure that they are in the range of reasonable results and to ensure that Canadian Actuarial Standards of Practice have been followed.
 - The AuG43 review provides the external auditor the required evidence to provide an unqualified opinion on the financial statements with regard to the actuarial policy liabilities.
 - As per AuG43, the independence of the audit function requires that an actuary other than the Appointed Actuary examine the liabilities.
- (c) The unaudited quarterly financial statements prepared for the first and second quarters of the Corporation's fiscal year includes revised figures for unpaid claim liabilities and unearned premium liabilities based on the Review of Policy Liabilities as at April 30 and July 31 respectively. The unaudited quarterly financial statements prepared for the third quarter does not include revised figures.

(The following response was prepared by KPMG LLP)

- (d) Refer to the attachment.