Undertaking # 26

MPI to quantify the dollar value of the one (1) in twenty (20) to one (1) in one hundred (100) referenced in the Application, and also provide some situational potential actions based on solely a number.

RESPONSE:

The most adverse 1-in-20 year scenario was the four-year Sustained Low Interest Rates – Combined Scenario. This scenario was run through the Corporation's financial model in response to CAC (MPI) 2-16. The results indicated that the minimum RSR based on a 1-in-20 year target was $140 million.

The most adverse 1-in-100 year scenario was the four-year Sustained Low Interest Rates – Combined Scenario. This scenario was run through the Corporation's financial model in response to this undertaking. The results, shown below, indicate that the minimum RSR based on a 1-in-100 year target including management action is $228 million.

1-in-100 Combined with Sustained Low Interest Rates Scenario with Management Action (in millions)

	2013/14	2014/15	2015/16	2016/17	2017/18
Rate Changes	0.00%	1.80%	1.00%	3.78%	2.05%
Rate Surcharges	0.00%	0.00%	0.00%	2.00%	4.00%
Earned Revenues	$787	$835	$886	$956	$1,044
Total Claims Costs	$787	$856	$881	$895	$957
Expenses	$125	$131	$134	$141	$150
Investment Income	$123	$73	$63	$57	$53
Net Income	($4)	($80)	($66)	($22)	($11)
Retained Earnings	$138	$58	($8)	($30)	($41)
Unrealized Gain/(Loss)	$52	$29	$9	($7)	($20)

1-in-100 Combined with Sustained Low Interest Rates Scenario with Management Action Difference from Base Forecast (in millions)

	2013/14	2014/15	2015/16	2016/17	2017/18
Earned Revenues	$0	$0	$5	$34	$81
Total Claims Costs	$17	$82	$89	$94	$127
Expenses	$0	$0	$1	$3	$6
Investment Income	$8	$10	$17	$20	$17
Net Income	($9)	($72)	($69)	($43)	($35)
Retained Earnings	($9)	($81)	($150)	($193)	($228)
Unrealized Gain/(Loss)	$0	($18)	($42)	($64)	($85)

Similar to the current upper target of the PUB's RSR range, the Corporation believes it is reasonable that the Board only order a rebate or a surcharge if the RSR balance is significantly above or below the RSR target number. In terms of rebates, the Corporation believes it would be appropriate and more operationally efficient if the Board did not order a rebate of less than 10% written vehicle premiums. Based on an RSR target of $172 million (for example), this would imply that the Board would not order a rebate until the RSR was in excess of approximately $248 million.

In terms of surcharges, the Corporation's 2013 DCAT report assumed that surcharges would be ordered if the RSR balance fell below $125 million. On a go forward basis, the Board could target a particular dollar or percentage deviation from the RSR target as the basis for triggering surcharges (e.g. a $125 million threshold would be approximately $50 million or 25% below the Corporation's proposed DCAT target). The 1-in-20 year DCAT indication (currently $140 million) could also be used as the threshold point for which surcharges are triggered.

In addition to the current RSR balance, the Corporation believes that the Board should also consider the following when determining if rebates or surcharges are required:

- *Financial Outlook*: E.g. If the Corporation's RSR balance is below the surcharge threshold, but the Corporation has a positive financial outlook over the forecast period (i.e. positive net income), it may be possible for the Board to restore the RSR to the target level without the application of surcharges.
- *AOCI*: E.g. A rebate may not be appropriate if there is a significant negative balance in AOCI, while a surcharge may not be appropriate if there is a significant positive balance in AOCI.
- Cost associated with the rebate and amount of rebate (as per above).