

## **UNDERTAKING NO. 59:**

CAC to provide some dialogue with respect to the question of total equity for Basic versus RSR:

1. The difference between Retained Earnings and Equity is the Accumulated Other Comprehensive Income (AOCI) which is comprised essentially of the unrealized gains from the equity investment portfolio.
2. For rate setting purposes (and as per Vol II Ratemaking page 24) MPI does not consider and take into account the annual change in AOCI.
3. The Goal for Basic Insurance is “To break even over the long term on Basic automobile insurance”. (Vol III AI.6 Part 2 Corporate Strategic Plan 2014-2018 page 12)
4. In the 2014 DCAT report AOCI was considered as part of the considerations required to achieve a satisfactory financial condition: “The conditions required to achieve satisfactory financial condition were revised in the 2014 DCAT to more accurately reflect actuarial standards of practice to include AOCI.” (Vol II RSR page 12)

CAC Manitoba would recommend that, since the annual change in AOCI is not included in the rate setting process/methodology the RSR target range should be expressed in terms of retained earnings and not equity in a ‘going concern’ environment.

Further, In a ‘liquidation’ environment equity should be considered since the AOCI would be realized.