

Undertaking # 26

MPI to explain the cause of the changes to the forecast between last year and the current year.

RESPONSE:

This year's stochastic modeling results are generally consistent with last year's results with the exception of Comprehensive coverage.

For hail claims, the Corporation continues to use a longer historical period for modeling purposes, which results in a lower projected best estimate than recent hail experience or that used in the Corporation's forecast.

For non-hail Comprehensive claims, the Corporation makes an adjustment to the history for theft-related claims because historical theft-related experience is not reflective of future experience. The methodology used is similar to last year; however, the effect (relative to the base forecast) is to produce a lower result. Also, the stochastic model is projecting lower severities for non-hail Comprehensive claims than that used in the Corporation's forecast.

The Corporation will review the above modeling assumptions prior to next year's DCAT. If a change is warranted, the likely effect will be to shift the claims incurred modeling results upward for Comprehensive claims (i.e. higher claims costs) to be more in-line with the Corporation's base forecast. This would increase the magnitude of the adverse claims scenarios.

The Corporation recognizes that it is difficult to discuss the technical details of the stochastic modeling in the hearing setting. However, the Corporation has filed comprehensive information on the statistical and graphical goodness of fit for all stochastic modeling results (as part of the PUB DCAT draft undertaking), which should give the PUB advisors a detailed understanding this year's modeling assumptions. The Corporation is open to continued collaboration with the PUB and

interested parties on the stochastic modeling assumptions in the interest of continually improving the modeling results.