

## Undertaking # 46

MPI to estimate the probability level of the combined scenario after management action that would exhaust a total equity balance of about 325 million.

### RESPONSE:

In the response to the Boards draft DCAT undertaking, the Corporation indicated that a 1-in-200, 4-year combined scenario before management or regulatory action results in a total equity balance of -\$290 million by the end of 2018/19, or \$519 million below the Corporation's base total equity forecast. If we assume that reasonable management action is to apply for a 5% rate increase in each of the 2016/17 through 2018/19 rating years, then these additional revenues would be expected to reduce the impact of this adverse scenario from \$519 million to approximately \$270 million (i.e. the rate increases would generate approximately \$250 million in additional earned premiums over this period). On this basis, the Corporation estimates that a \$325 million decline in total equity after management and regulatory action has a probability level lower than 1-in-200. However, the Corporation does not believe that the assumed management or regulatory action in this scenario is consistent with the stated purpose of the RSR (i.e. this scenario assumes nearly 20% in rate increases between 2015/16 and 2018/19). The Corporation has proposed an RSR range in this application to minimize the amount of management or regulatory action (i.e. rate increases) that would be required in such an extreme (or less extreme) adverse scenario.