

Presentation to the Public Utilities Board

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Agenda

- * Qualifications
- * Themes
 - * Purpose of our evidence
 - * Need for RSR
 - * Purpose of RSR
 - * Methodology to set the RSR
 - * DCAT as a solution
 - * Unresolved Issue with the DCAT methodology

Qualifications - Education

- * Fellow Casualty Actuarial Society
- * Fellow Canadian Institute of Actuaries
- * Certified Management Accountant
- * Fellow Chartered Insurance Professional
- * Chartered Risk Manager

Qualifications - Experience

- * Experience in the Property and Casualty insurance industry – in my 25th year
- * Both Public (MPI & SGI) and Private (Federated, Aviva, Wawanesa) experience
- * Currently Vice President, Actuarial Pricing with The Wawanesa Mutual Insurance Company
- * Experience includes ERM, capital, solvency, pricing, reserving

Purpose of the Evidence presented by Wayne Simpson and myself

- * To summarize the state of affairs on the RSR and the use of the DCAT methodology
- * To discuss the purpose of the DCAT from a private and a public company perspective
- * To summarize outstanding issues with the use of the current DCAT to set the RSR range
- * To present theoretical questions for the Board's review and decision
 - * Purpose of the RSR
 - * Need for the RSR

Eschew the concept of the RSR?

- * RSR can introduce intergenerational inequities
 - particularly if it is high
- * Volatility in rates without the RSR
- * Require improvement in forecasting accuracy
- * Only given as an option for the Board's consideration

Key message is that the RSR should not be so large as to create a disadvantage to the Manitoba economy and Manitoba's ratepayers

Purpose of the RSR - Options

- * Solvency - not an issue for MPI
- * Variance from Budget
- * Kopstein

Recommendation 7.10 “MPIC should accumulate a surplus in order to provide a cushion against massive rate shocks occasioned by unforeseen losses”

Page 22 “Unusual weather conditions and certain other occurrences are unpredictable by their nature. The resulting losses are an inherent part of what the insurance business must expect on occasion and they must be anticipated.”

The optimal methodology to set the range for the RSR

- * Consistent over time
- * Transparent
- * Range that recognizes the trade off between rate stability and the negative impact of holding excess ratepayers money
- * Recognizes the difference in risk profile between a private insurance company and a government monopoly

DCAT as a Solution?

- * Useful risk analysis and mitigation technique for private insurance companies and MPI, with slightly different purposes
- * Private insurance companies use the DCAT to analyze solvency risk – this is not a risk for MPI

The DCAT – Unresolved Issues

- * Range of the RSR
 - * We recommend that the RSR range be determined using the DCAT results – analyze results between the 1 in 20 year and the 1 in 100 year event results to determine a reasonable range
 - * Range has to be tight given the RSR is ratepayer's money and taking excess monies out of the economy is detrimental
 - * Do not accept 100% MCT result as the upper end of the range given the 1 in 5000 year likelihood

The DCAT – Unresolved Issues

Equity Decline Scenario

Choice of three year equity decline scenario as most adverse

- * Inconsistent with the other three adverse scenarios which are based on a four year scenario
- * Overstates the adverse nature of this scenario because there is evident rebound in equity returns in the fourth year

The DCAT – Unresolved Issues

Interest Rate Decline Scenario

- * Does not rely completely on historical evidence because the historical evidence does not contain a sustained low interest rate period such as we are experiencing now
- * DCAT applies to fiscal years. The interest rate floor chosen is based on the lowest monthly Government of Canada 10-year bond yield from 1989 to present. This exaggerates the lowest annual yield and the estimated impact of the scenario.

The DCAT – Unresolved Issues

Combined Scenario

- * \$51 million improvement in interest rate scenario due to ALM
- * What else has changed?

Difference From Base - Total Equity

	Interest Rate	Combined
Last Year	168	213
This Year	91	237

