Actuarial Ratemaking

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Actuarial Ratemaking

- Would simplify MPI's process
- Accurate actuarial ratemaking will lead to a break even position over time
- In accordance with Accepted Actuarial Practice in Canada

Ratemaking is Prospective

From the Casualty Actuarial Society, Statement of Principles Regarding Property and Casualty Insurance Ratemaking

“Ratemaking is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk.

Principle 1: A rate is an estimate of the expected value of future costs.”

Using fiscal (calendar) year results in ratemaking introduces prior year case reserve and IBNR adjustments. Inclusion of investment income on a calendar year basis through the pro forma financials is unneccessary.

Underwriting Profit Margin

- The Underwriting Profit Margin should be calculated as

-IR/PSR

where

IR = Expected before tax investment return rate on assets supporting total equity

PSR = Expected premium to surplus ratio

Discount Rate

Section 2620.15 of the Canadian Institute of Actuaries Standards of Practice:

"The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate."

The Corporation is basing their discount rate on investments purchased in the past.