

Undertaking # 19

Advise whether it would be practical or possible for MPI to undertake to prepare an updated response to this IR, PUB-MPI-1-25, to be consistent with the amended DCAT and target capital analysis provided on October 7th?

RESPONSE:

The Corporation has provided an updated response to PUB (MPI) 1-25 using the 4.3% rate increase with the revised August 2016 interest rate forecast.

The Corporation set the Total Equity balance to \$159 million as of February 28, 2017 which resulted in an MCT ratio of 26.2%. The Total Equity balance was then adjusted such that the MCT ratio remained at 26.2% throughout the forecast period.

Modified Base Scenario (in millions)

	2016/17	2017/18	2018/19	2019/20	2020/21
Earned Revenues	\$934	\$1,001	\$1,067	\$1,117	\$1,170
Total Claims Costs	\$915	\$899	\$911	\$989	\$1,079
Expenses	\$144	\$149	\$158	\$162	\$170
Investment Income	\$91	\$36	\$25	\$42	\$86
Net Income	(\$34)	(\$11)	\$24	\$8	\$6
Retained Earnings	\$123	\$128	\$134	\$134	\$113
Total Equity	\$159	\$173	\$173	\$182	\$170
MCT Ratio	26.2%	26.2%	26.2%	26.2%	26.2%

The Corporation then applied each of the 1-in-20 and 1-in-40 year scenarios of the 2 year and 4 year Combined model with management action to the new modified base scenario. The output from this process is shown below.

2-year, 1-in-20 Combined Scenario *including* Management Action with Modified Base (in millions)

	2016/17	2017/18	2018/19	2019/20	2020/21
Rate Changes	0.0%	4.3%	0.0%	0.0%	0.0%
Add'l RSR Rebuilding Fee	0.0%	0.0%	2.0%	0.0%	0.0%
Earned Revenues	\$934	\$1,001	\$1,079	\$1,139	\$1,192
Total Claims Costs	\$915	\$989	\$997	\$1,041	\$1,088
Expenses	\$144	\$149	\$159	\$164	\$172
Investment Income	\$91	\$72	\$60	\$57	\$66
Net Income	(\$34)	(\$65)	(\$18)	(\$9)	(\$3)
Retained Earnings	\$123	\$75	\$38	\$22	(\$7)
Total Equity	\$159	\$87	\$27	\$23	\$29
MCT Ratio	26.2%	2.7%	-14.6%	-15.5%	-8.8%

2-year, 1-in-40 Combined Scenario *including* Management Action with Modified Base (in millions)

	2016/17	2017/18	2018/19	2019/20	2020/21
Rate Changes	0.0%	4.3%	0.0%	0.0%	0.0%
Add'l RSR Rebuilding Fee	0.0%	0.0%	2.0%	0.0%	0.0%
Earned Revenues	\$934	\$1,001	\$1,079	\$1,139	\$1,192
Total Claims Costs	\$915	\$989	\$998	\$1,040	\$1,088
Expenses	\$144	\$149	\$159	\$164	\$172
Investment Income	\$91	\$70	\$51	\$48	\$63
Net Income	(\$34)	(\$67)	(\$27)	(\$17)	(\$5)
Retained Earnings	\$123	\$72	\$27	\$3	(\$29)
Total Equity	\$159	\$72	(\$2)	(\$9)	(\$8)
MCT Ratio	26.2%	-1.6%	-23.4%	-24.3%	-18.4%

4-year, 1-in-20 Combined Scenario *including* Management Action with Modified Base (in millions)

	2016/17	2017/18	2018/19	2019/20	2020/21
Rate Changes	0.0%	4.3%	0.0%	3.0%	3.0%
Add'l RSR Rebuilding Fee	0.0%	0.0%	0.0%	2.0%	2.0%
Earned Revenues	\$934	\$1,001	\$1,067	\$1,147	\$1,259
Total Claims Costs	\$915	\$934	\$990	\$1,067	\$1,109
Expenses	\$144	\$149	\$158	\$164	\$176
Investment Income	\$91	\$74	\$64	\$59	\$55
Net Income	(\$34)	(\$8)	(\$16)	(\$25)	\$29
Retained Earnings	\$123	\$132	\$97	\$65	\$67
Total Equity	\$159	\$156	\$108	\$67	\$48
MCT Ratio	26.2%	21.7%	7.6%	-3.6%	-4.0%

4-year, 1-in-40 Combined Scenario *including* Management Action with Modified Base (in millions)

	2016/17	2017/18	2018/19	2019/20	2020/21
Rate Changes	0.0%	4.3%	0.0%	3.0%	3.0%
Add'l RSR Rebuilding Fee	0.0%	0.0%	2.0%	2.0%	2.0%
Earned Revenues	\$934	\$1,001	\$1,079	\$1,169	\$1,283
Total Claims Costs	\$915	\$987	\$1,008	\$1,075	\$1,063
Expenses	\$144	\$149	\$159	\$166	\$178
Investment Income	\$91	\$74	\$67	\$58	\$55
Net Income	(\$34)	(\$61)	(\$21)	(\$14)	\$97
Retained Earnings	\$123	\$78	\$38	\$17	\$87
Total Equity	\$159	\$103	\$46	\$18	\$69
MCT Ratio	26.2%	7.0%	-9.2%	-16.3%	1.1%

The Corporation adjusted the starting Total Equity balance for February 28, 2017 such that the forecasted Total Equity balance approximates \$0 at the lowest point over the forecast period. The resulting Total Equity balance are as follows.

Minimum Total Equity Balance as of the end of Fiscal 2016/17

Combined Scenario Basic Total Equity *after* Management Action (in millions)

Combined Scenarios	2016/17	2017/18	2018/19	2019/20	2020/21
2 year 1-in-20	\$133	\$60	\$0	(\$6)	(\$0)
2 year 1-in-40	\$161	\$74	\$0	(\$6)	(\$5)
4 year 1-in-20	\$116	\$111	\$62	\$20	\$0
4 year 1-in-40	\$143	\$86	\$29	\$0	\$51