

October 18, 2019

**Undertaking #18**

MPI to advise whether the Corporation has information that its interpretation of the regulation found at RSR-4 is consistent with the government's intentions when establishing the regulation.

**RESPONSE:**

MPI's interpretation of the Reserves Regulation is set out in detail in response to information request PUB (MPI) 1-100.

The line of questioning that led to the undertaking appears to suggest that the provisions of the Capital Management Plan pertaining to the rebuild of the Rate Stabilization Reserve (RSR) to 100% Minimum Capital Test (MCT) ratio may not comply with the Reserves Regulation (the Regulation). MPI believes that its Capital Management Plan complies with the Regulation.

The MCT ratio of the RSR level may fluctuate from year to year as a result of unforeseen events. Further, there may be points in time in the course of a year in which the RSR is above or below 100% MCT. If the RSR is below 100% MCT, it will be below the amount required by the Regulation. The Regulation is silent on the manner by which MPI must remedy the situation. It does **not** specify that MPI must take steps to ensure that the RSR is immediately at or above 100% MCT.

The Annual Business Plan that MPI submitted to Crown Services in February 2019 (and approved by the Minister October 15, 2019) states the following Key Principles on page 4:

- The Basic compulsory insurance program must be operated on a self-sustaining basis with a sufficient capital reserve to absorb unforeseen variations in revenues, claims costs and investment revenues, and with insurance rates that are actuarially supported and established in accordance with accepted actuarial practice.

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- The Basic compulsory insurance rates will be kept as stable, predictable and affordable as possible.

In the section entitled Key Priorities on page 5 it states:

**Capital Management** – *Implement appropriate capital target reserve levels in order to provide stable rates to customers and protect customers against adverse rate changes due to investment downturns or severe weather events.*

On page 10:

*"The Capital Management Plan will include the following components:*

- *Capital targets by line of business based on MCT ratios*
- *Basic Capital Maintenance Provision*
- *Basic Capital Build and Release provision*
- *Excess Capital Policy for Competitive Lines of Business"*

The key principle and priority approved by the Minister of Crown Services (the Minister) is that rates are to be kept stable, predictable, and protect customers against adverse rate changes due to investment downturns or severe weather events.

The Mandate Letter issued by the Minister on April 24, 2019, requires the implementation of a Capital Management Plan, and continued efforts to reduce risk and volatility, and enhance stability.

The Minister has approved the Annual and Quarterly Financial Statements of MPI, as well as all the proposed Capital Management Plan. The 2018 Annual Report states that the RSR had a 52% MCT ratio as of February 28, 2019.

MPI believes that requiring an immediate increase of the RSR to 100% MCT, without consideration of where it may be presently, is contrary to those principles and priorities related to stability, outlined above.

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The Minister has never specified a requirement to immediately raise the RSR level to 100% MCT. This, MPI believes, is tacit support on the part of the Minister for the interpretation of the Regulation adopted by MPI, and as proffered in the Part VI Rate Stabilization Reserve RSR.4 of its 2020 General Rate Application.