Undertaking #28

The Corporation to provide data indicating how many times since 1994 the Corporation required to make a drawdown from the RSR in connection with unexpected events and losses arising from nonrecurring events or factors.

RESPONSE:

The correct way to assess the risk of a significant drawdown in the RSR balance is by using the results of the Dynamic Capital Adequacy Test (DCAT) report. The DCAT analysis provides modeling results based on the current risks facing Basic insurance. The DCAT utilizes models for equity returns, interest rates, and claims costs that were developed based on the historical variability of these risks. The DCAT modeling was developed in collaboration with the Public Utilities Board.

In regards to the question posed in this Undertaking, MPI can identify significant adverse financial events for equity returns, interest rates, and every major claims coverage that have all occurred within the last ten fiscal years (i.e. from 2007/08 through 2016/17). The Corporation believes these examples make the point that significant drawdowns of the RSR are possible.

- Stock Market Crash: In FY 2008/09, the Corporation's equity portfolio declined by 39.7%, or $179 million. If the same percentage is applied on the forecasted equities balance as of March 1, 2018, the impact would be a $172 million reduction in the RSR for FY 2018/19.

- Interest Rates: From FY 2014/15 through FY 2016/17, the forecasted interest rates from the major banks did not materialize and resulted in deficient premiums of approximately $163 million over these two fiscal years.

- Hail: In FY 2015/16 and FY 2016/17, Basic experienced net hail claims costs of $49 million and $39 million respectively, which were more than double the previous 10 year average annual net hail costs (after adjusting historical hail claims to current exposure and cost levels).

- Collision: For FY 2010/11 through FY 2013/14, poor winter driving conditions resulted in Basic experiencing three of its four worst-ever accident years for collision frequency. In FY 2010/11, FY 2011/12, and FY 2013/14, collision frequency averaged 138.3 claims per 100 vehicles, which is approximately 9% higher than the collision frequency forecasted in the 2018 GRA. If such an event occurred beginning in FY 2018/19, the Collision forecast would be approximately 10,500 additional collision claims and $40 million over budget *per year.*

- PIPP: Beginning approximately in accident year FY 2010/11, there was an unexpected increase in the number of lifetime injury claimants. In FY 2015/16 and FY 2016/17, the claims liabilities for Weekly Indemnity were increased by $54 million and $36 million respectively to account for this change in experience.