

October 25, 2018

2019 GENERAL RATE APPLICATION
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Undertaking #8

MPI to provide information on what reserves they have and what each purpose and amount is.

RESPONSE:

In the discussion between Mr. Johnston and Mr. Oakes on transcript pages 579 through 581, Mr. Oakes asks what other types of reserves the corporation holds. For example, the discussion references the reserves held for claims liabilities. MPI's interpretation of this request is that Mr. Oakes would like to know what other risk provisions the Corporation holds *in addition to* the Rate Stabilization Reserve.

The most significant risk provisions held by the Basic line of business relate to claims liabilities and to provisions for employee current and future benefits (including pension). The Corporation's external appointed actuary and the Corporation's pension actuary are required by Accepted Actuarial Practice to conduct their valuations on a 'best estimate' basis and to then add provisions for adverse deviation to these estimates. While these provisions are 'reserves' in excess of the best estimate amounts, they are not available for the same purpose as the Rate Stabilization Reserve. For example, when an adverse event occurs, the Corporation would not release employee future benefit provisions to fund the losses or prevent RSR rebuilding fees.

The Corporation has other provisions, margins, and contingencies that are used for such things as accounts receivables. Details related to the areas of critical judgments and key sources of estimation uncertainty can be found on page 19 of the Universal Compulsory Automobile Insurance Annual Financial Statements that are included in Section VIII, Annual Reports, Appendix 1. These amounts are considered standard practice and would be significantly less in magnitude than the provisions on claims and the provisions for employee current and future benefits. Similarly, the Corporation would not be able to release these amounts as a means to recover from adverse events or prevent RSR rebuilding fees, and therefore, they should not be considered 'reserves' in the same manner as the Rate Stabilization Reserve.