

CAC (MPI) Pre-Ask 1

Part and Chapter:		Page No.:	
PUB Approved Issue No:			
Topic:			
Sub Topic:			

Preamble:

Please refer to CAC (MPI) 1-61, p 2 (from the 2022 GRA) where MPI states:

"First, MPI desired an alignment of its reinsurance limits with a 1-in-100 target risk level, as recent modelling projections predict that a 1-in-100 year scenario would exceed the current reinsurance protection available to MPI (i.e. \$300 million). Specifically, internal modelling predicts that a 1-in 100 year event would result in MPI incurring approximately \$340 million in claims costs (with external modelling predicting a similar result)."

Please also refer to 2022 GRA Part VII – RMF Appendix 3, p 3 where the risk "Massive Catastrophic Weather Event" has a residual risk rating of medium.

Please also refer to the 2020 GRA, RMF, Appendix 1, p 6-7, the risk scorecard for Catastrophic Weather Event, where MPI states:

"The inherent risk of the 1-in 100 hail scenario is estimated to be (\$291M). With paintless dent repair (without reinsurance), the risk is lowered by \$77M to (\$214M).

In 2019/20, the Corporation is moving from an event based Catastrophic Program with a coverage limit of \$265M to a single aggregate based Catastrophic program with a coverage limit of \$300M. This will enable the Corporation to reduce risk against large cumulative catastrophic events. Under the old reinsurance program in the 1-in-100 hail scenario (with paintless dent repair) the risk was (\$69M). Under the new reinsurance program, the risk is (\$51M).

The Corporation will experience an increase in premiums for 2019/20, and will reduce coverage related to the casualty program for manageable pricing on the overall Reinsurance program.”

Please also refer to the 2021 GRA, RMF, Appendix 3, p 6-7, the risk scorecard for a Catastrophic Weather Event, where MPI states:

“The inherent risk of the 1-in 100 hail scenario is estimated to be (\$291M). With paintless dent repair (without reinsurance), the risk is lowered by \$77M to (\$214M).

In 2019/20, the Corporation is moving from an event based Catastrophic Program with a coverage limit of \$265M to a single aggregate based Catastrophic program with a coverage limit of \$300M. This will enable the Corporation to reduce risk against large cumulative catastrophic events. Under the old reinsurance program in the 1-in-100 hail scenario (with paintless dent repair) the risk was (\$69M) in 2020/21. Under the new reinsurance program, the risk is (\$51M) in 2020/21 and (\$56M) in 2021/22.

The Corporation will experience an increase in premiums for 2020/21, and will reduce coverage related to the casualty program for manageable pricing on the overall Reinsurance program.”

Question:

- a) Please confirm that no risk scorecard has been filed for Catastrophic Weather Event in the 2022 GRA.
- b) Please confirm whether the 1-100 year catastrophe loss scenario referred to in CAC (MPI) 1-61, p 2 (in the 2022 GRA) refers to the same hail scenario as the two risk scorecards from the 2020 and 2021 GRAs, referred to in the preamble.
 - i. If confirmed, please clarify whether the \$340M referred to in CAC (MPI) 1-61, p 2 is with or without paintless dent repair.

- ii. If confirmed, please explain why costs relating to the inherent risk of the 1-in 100 hail scenario have increased from \$214M in the 2020 and 2021 GRAs to \$340M in the 2022 GRA.

 - iii. If confirmed, please provide the residual risk, under the expanded reinsurance program.
- c) If the \$340M referred to in CAC (MPI) 1-62, p 2 does not refer to the same 1-in 100 hail scenario as the two scorecards from the 2020 and 2021 GRAs, please clarify what is included in the \$340M.

Rationale for Question:

RESPONSE:

- a) No risk scorecard was filed for Massive Catastrophic Weather Event in the 2022 GRA.

- b) Confirmed, the 1-in-100 year hail scenario was selected for the 2022 GRA and 2021 GRA.
 - i. This includes paintless dent repair.

 - ii. There were two changes in the modelling of hail storms used for the simulations. The first change was to move from monthly simulations of hail storms to daily. The resulting change increased the number of possible claims that could occur in any given year as there was an assumed cap on the total number of claims in a month. Prior to this change it was assumed that the maximum number of claims in a given month (or storm) would be 100,000, roughly 10% of all insured vehicles. After this change, the limit was placed on the daily total (or storm).

The second change was to allow the severity growth of claims to fluctuate. In previous modelling, claims were randomly selected from recent accident years, which resulted in fairly stable severity growth from simulation to simulation. However, hail claims can vary widely in severity so a severity growth factor was added to model this risk. One example of such a scenario would be where two storms occur that result in a total of 70,000 claims and an average severity of \$4900 or roughly an 8.0% increase above forecast.

- iii. Under the 2021/22 reinsurance program with a 1-in-100 year scenario, the residual risk is (\$111M) in 2021/22. Residual likelihood score is 1, residual financial impact is 5 for a residual risk rating of medium.

c) n/a.