

Alberta Automobile Insurance Rate Board

2017 Annual Open Meeting

August 15, 2017



**FACILITY
Association**

Representing Facility Association

- ❖ David Simpson, M.B.A., FCIP, C. Dir.
President & CEO

- ❖ Shawn Doherty, FCIA, FCAS
Senior Vice President, Actuarial & CFO

Agenda

- ❖ Introduction
- ❖ Facility Association In Alberta
- ❖ Risk Sharing Pools – Size
- ❖ Risk Sharing Pools - Financial Performance
- ❖ Conclusion

Facility Association Mission & Vision

Mission

Facility Association's mission is to administer automobile insurance residual market mechanisms, enhance market stability, and guarantee the availability of automobile insurance to those eligible to obtain it. We strive to keep the market share of the residual markets as small as possible, so consumers may benefit from the competitive marketplace to the greatest extent possible.

Vision

Facility Association's vision is to be recognized and relied upon as a highly efficient and effective administrator of automobile insurance residual markets, whose objective opinion on residual markets and related issues is respected and sought by stakeholders.

Facility Association in Alberta

Residual Market Segment

- Non-Private Passenger vehicles
- Private Passenger vehicles subject to stringent eligibility criteria

Risk Sharing Pools

- Private Passenger only
- Grid and Non-Grid

Facility Association in Alberta

Residual Market Segment Risks

- Written at rates approved for the segment

Risk Sharing Pool Risks

- Written at individual company rates

Facility Association in Alberta

Residual Market Segment and Risk Sharing Pool balances shared among all licensed automobile insurers in Alberta by:

- Line of business (PPV or Non-PPV)
- Accident Year

Facility Association in Alberta

Residual Market Segment and Risk Sharing Pool are governed by the Plan of Operation

- as authorized by the Superintendent

More at www.facilityassociation.com

Alberta Risk Sharing Pools - Size

In general:

- The more price competition allowed; the smaller the residual market.

We believe:

- The current “file and approve” system of rate regulation in Alberta, established after the IWA process was discontinued in 2014, has the potential to reduce the size of the Risk Sharing Pools.

Alberta Risk Sharing Pools - Size

Grid Pool

- eligible exposures are those where premium for risk is capped by the Grid
- for eligible risks, no limit on the number of risks that can be transferred to the RSP

Non-Grid Pool

- limited to 4% of written exposures not transferred to the Grid Pool by the company (at the Group level)

Private Passenger Vehicles only

Alberta Risk Sharing Pools - Size

| Alberta Risk Sharing Pools – Market Share (Written Premium Basis) | | | | | | |
|---|---------------------|-----------|---------------------|-----------|---------------------|-----------|
| | Total | | Grid RSP | | Non-Grid RSP | |
| Year | W. Premium (\$'000) | Mkt Share | W. Premium (\$'000) | Mkt Share | W. Premium (\$'000) | Mkt Share |
| 2012 | \$241,100 | 9.0% | \$160,342 | 6.0% | \$80,758 | 3.0% |
| 2013 | \$217,734 | 7.6% | \$135,874 | 4.7% | \$81,860 | 2.9% |
| 2014 | \$238,352 | 7.8% | \$155,765 | 5.1% | \$82,587 | 2.7% |
| 2015 | \$224,297 | 7.0% | \$138,309 | 4.3% | \$85,988 | 2.7% |
| 2016 | \$248,140 | 7.5% | \$148,472 | 4.5% | \$99,668 | 3.0% |

Alberta Risk Sharing Pools - Size

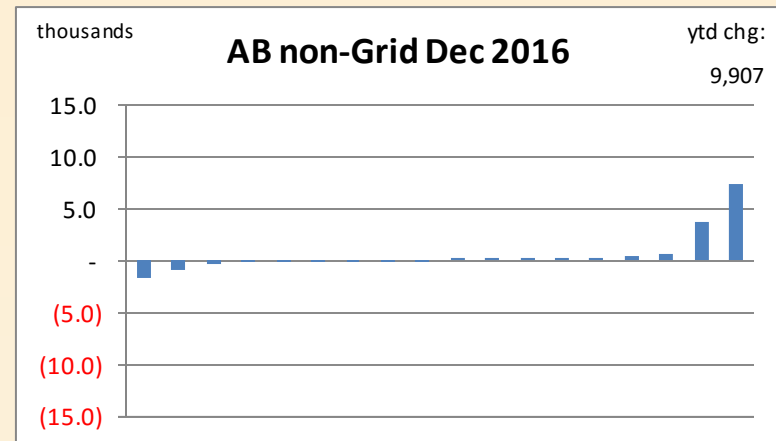
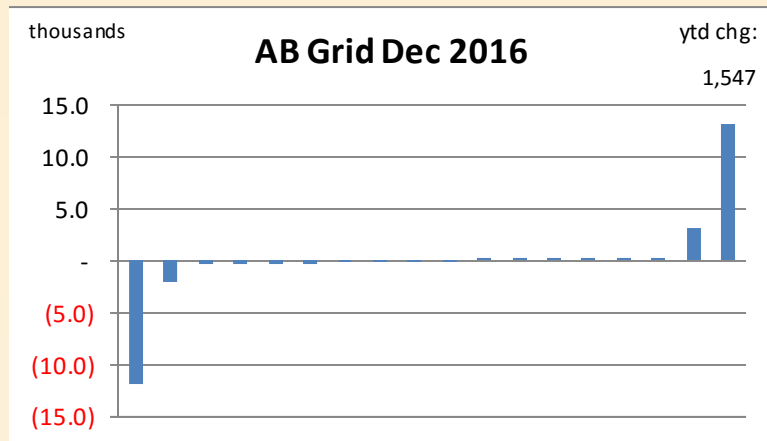
| Alberta Risk Sharing Pools – Market Share (Written Exposure Basis) | | | | | | |
|--|---------|-----------|----------|-----------|--------------|-----------|
| | Total | | Grid RSP | | Non-Grid RSP | |
| Year | W. Exp | Mkt Share | W. Exp | Mkt Share | W. Exp | Mkt Share |
| 2012 | 139,502 | 5.6% | 78,609 | 3.2% | 60,893 | 2.4% |
| 2013 | 123,561 | 4.8% | 63,979 | 2.5% | 59,582 | 2.3% |
| 2014 | 133,164 | 4.9% | 70,934 | 2.6% | 62,230 | 2.3% |
| 2015 | 119,658 | 4.4% | 61,813 | 2.3% | 57,845 | 2.1% |
| 2016 | 131,112 | 4.8% | 63,360 | 2.3% | 67,752 | 2.5% |
| 2017 | 129,192 | | 61,303 | | 67,889 | |
| 2018 | 130,322 | | 60,543 | | 69,779 | |

2017 and 2018 exposure counts are projections per the 2018 RSP Preliminary Outlook posted July 6, 2017 to the FA website (www.facilityassociation.com)

Alberta Risk Sharing Pools – Company Member Group Activity during 2016

FOR CURRENT CALENDAR YEAR-TO-DATE TO Dec 2016

Change in RSP Pool Transfers - by Company Member Group



| | # grps | chg |
|--------------|--------|----------|
| decliners: | 10 | (15,394) |
| no changers: | - | - |
| growers: | 8 | 16,941 |

| | # grps | chg |
|--------------|--------|---------|
| decliners: | 9 | (3,008) |
| no changers: | - | - |
| growers: | 9 | 12,915 |

Top 6 Private Passenger Residual Market Jurisdictions in North America

| | <u>Market Share</u> <u>(vehicles)</u> |
|----------------------------|--|
| North Carolina | 30.1% ¹ |
| Northwest Territories | 11.7% |
| Nunavut | 9.8% |
| Alberta (RSP & FARM) | 4.9% |
| Newfoundland & Labrador | 3.2% |
| New Brunswick (RSP & FARM) | 3.1% |

¹ Source: Insurance Information Institute (U.S.A.) data is for 2014

Alberta Risk Sharing Pools – Ultimate Loss Ratio

| Valuation Period | Accident Year | | | | | |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Grid RSP | | | | | | |
| as at Oct 31, 2012 | 68.2% | 72.3% | | | | |
| as at Oct 31, 2013 | 71.0% | 74.0% | 71.2% | | | |
| as at Oct 31, 2014 | 72.2% | 79.6% | 79.4% | 76.7% | | |
| as at Oct 31, 2015 | 70.9% | 77.5% | 80.0% | 85.3% | 81.6% | |
| as at Oct 31, 2016 | 71.4% | 79.6% | 83.9% | 92.4% | 96.7% | 88.5% |
| Non-Grid RSP | | | | | | |
| as at Oct 31, 2012 | 92.3% | 102.8% | | | | |
| as at Oct 31, 2013 | 90.2% | 109.0% | 104.7% | | | |
| as at Oct 31, 2014 | 93.3% | 111.0% | 110.7% | 112.6% | | |
| as at Oct 31, 2015 | 91.6% | 108.2% | 111.3% | 117.4% | 109.9% | |
| as at Oct 31, 2016 | 89.5% | 109.9% | 110.0% | 121.9% | 110.1% | 120.2% |
| Industry | | | | | | |
| as at Dec. 31, 2012 | 63.3% | 69.8% | | | | |
| as at Dec. 31, 2013 | 64.8% | 71.7% | 71.9% | | | |
| as at Dec. 31, 2014 | 67.2% | 75.5% | 76.1% | 77.1% | | |
| as at Dec. 31, 2015 | 67.1% | 75.0% | 76.1% | 77.3% | 76.6% | |
| as at Dec. 31, 2016 | 67.1% | 75.4% | 77.5% | 79.5% | 80.8% | 80.1% |

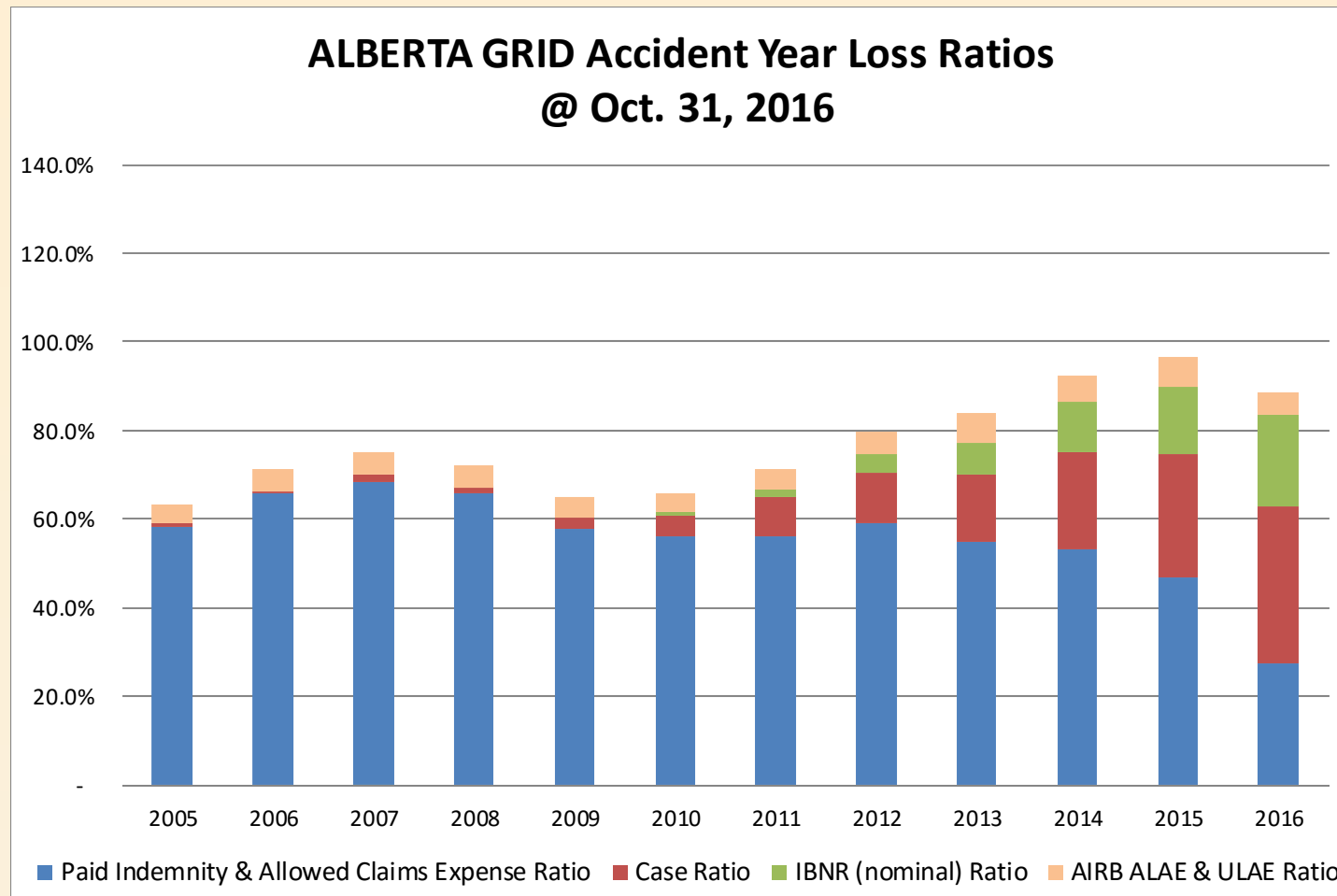
Per AIRB Request:

Effective with this presentation, ultimate loss ratios in this table have been loaded for allocated loss adjustment expenses (ALAE) and unallocated loss adjustment expenses (ULAE) to increase comparability with other sources of industry loss ratios.

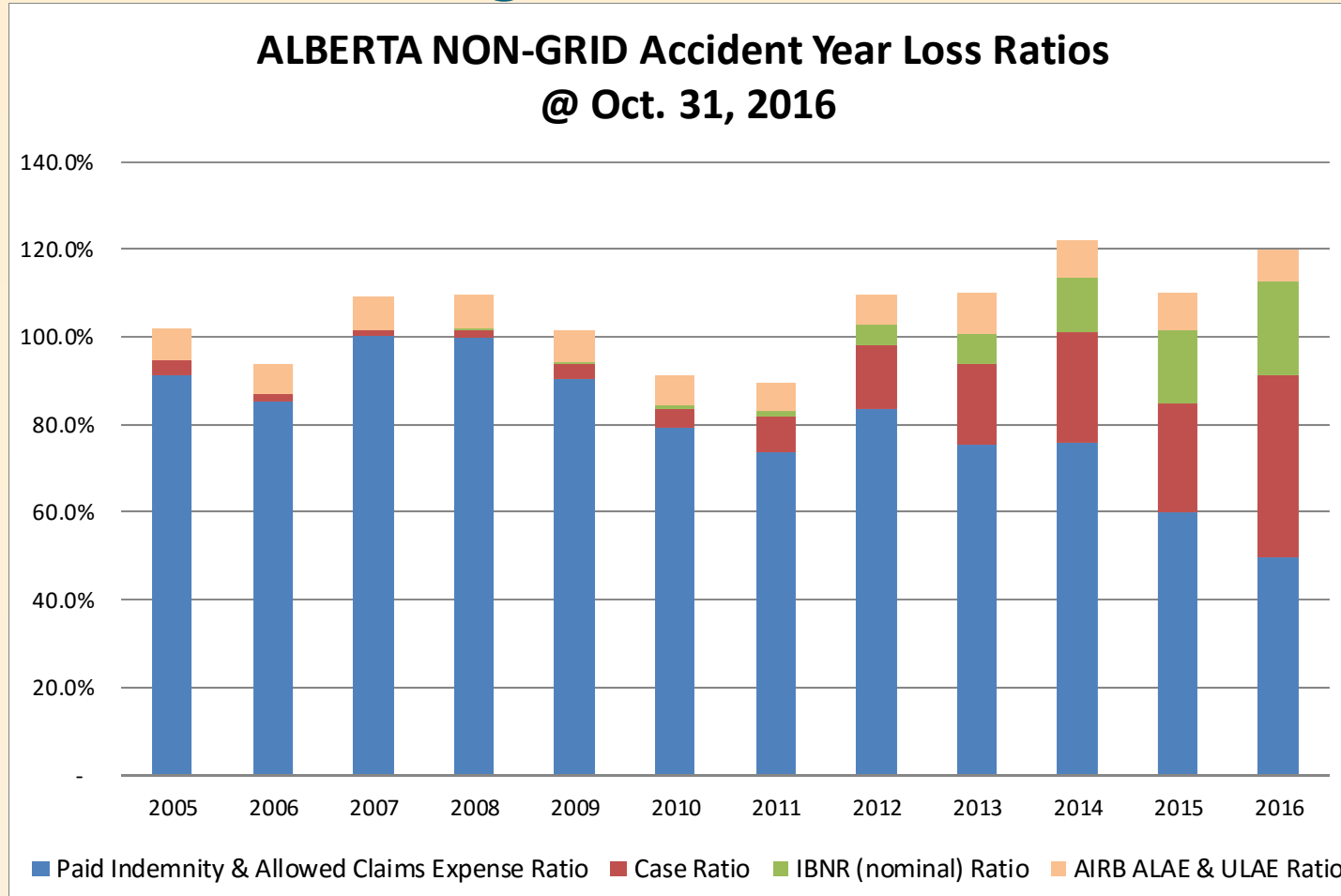
The claims expense inclusion was accomplished via a “factor” applied to the indemnity only loss ratios.

For the RSPs, the loss ratios in this table will not match other FA published sources (where only allowed claims expenses are included).

Alberta Risk Sharing Pools – Grid Pool Accident Year Ultimate Loss Ratios @ Oct 31, 2016



Alberta Risk Sharing Pools – Non-Grid Pool Accident Year Ultimate Loss Ratios @ Oct 31, 2016



Alberta Risk Sharing Pools - Financial Results

| Alberta Risk Sharing Pools - Excess/(Deficiency) of Revenue over Expenses (\$'000) | | | |
|--|--------------------|------------------|--------------------|
| Fiscal Year | Combined | Grid RSP | Non-Grid RSP |
| 2005 (13 months) | (\$121,940) | (\$93,902) | (\$28,038) |
| 2006 | (\$22,064) | \$8,498 | (\$30,562) |
| 2007 | \$83,935 | \$93,357 | (\$9,422) |
| 2008 | (\$103,445) | (\$73,490) | (\$29,955) |
| 2009 | \$76,563 | \$85,747 | (\$9,184) |
| 2010 | \$82,779 | \$83,893 | (\$1,114) |
| 2011 | (\$4,236) | \$13,432 | (\$17,668) |
| 2012 | (\$22,509) | (\$1,556) | (\$20,953) |
| 2013 | (\$52,335) | (\$14,452) | (\$37,883) |
| 2014 | (\$79,843) | (\$39,190) | (\$40,653) |
| 2015 | (\$19,760) | (\$591) | (\$19,169) |
| 2016 | (\$115,825) | (\$69,699) | (\$46,126) |
| Total | (\$298,680) | (\$7,953) | (\$290,727) |

Alberta Risk Sharing Pools - Financial Results

Financial Results Do Not Include the Following Member Company Impacts:

- Health Levies
- Premium Taxes
- Income Taxes
- Cost of Capital
- Investment Income

Potential Market Consequences

Risk:

- Large, potentially volatile, Risk Sharing Pools reduces market attractiveness for industry participants

Result:

- Less choice for consumers

Potential Market Consequences

Risk:

- Risk Sharing Pools not financially self-sufficient

Result:

- Requires subsidization from other consumers, i.e., lower-risk drivers subsidize higher-risk drivers

Potential Market Consequences

- Market impacts are not necessarily company impacts
- Worth considering when companies make individual rate applications

Preferred Outcomes

- Smaller Risk Sharing Pools because:
 1. Volatility of results impacts companies less
 2. Consumers benefit from a competitive market and market stability

Achieve Outcomes By

- Fewer risks eligible for the Grid
- Adequate Grid rates
- Increased competition below the Grid

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