

Alberta Automobile Insurance Rate Board – 2021 Open Meeting

August 19, 2021



Agenda

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- Introductions
 - Overview of FA
 - FA Market Share in Alberta
 - Impact of DCPD on Grid
 - Range of Reasonability
 - Conclusions/Q&A

Representing Facility Association

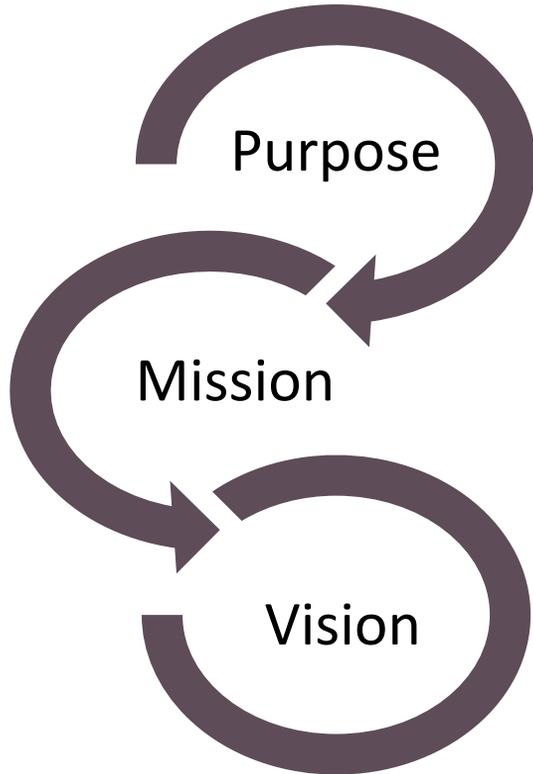
Saskia Matheson – President & CEO

Philippe Gosselin - VP Actuarial & CRO

Derek Tupling – Vice President, Government Relations & Communications

Facility Association

Purpose, Mission, Vision



To ensure the availability of automobile insurance to owners, lessees and licensed drivers of motor vehicles who are eligible.

To deliver on our Purpose through the efficient administration of automobile insurance residual market mechanisms and by providing valued information to our members. Facility Association strives to enhance market stability through minimizing its market presence and impact, in an effort to provide consumers with the benefits of a healthy and competitive standard insurance market.

Facility Association is recognized as an essential component of the Canadian P&C insurance industry, supporting Canadians and the Canadian economy through its highly efficient and effective administration of automobile insurance residual markets and data governance; Facility Association is sought out for its objective opinion on residual markets and related issues.

How It All Fits Together

FARM

Guarantee Market Availability Directly to those who need it

RSPs

Support Market Availability in the Regular Market by providing protection where there is an inability to adequately price

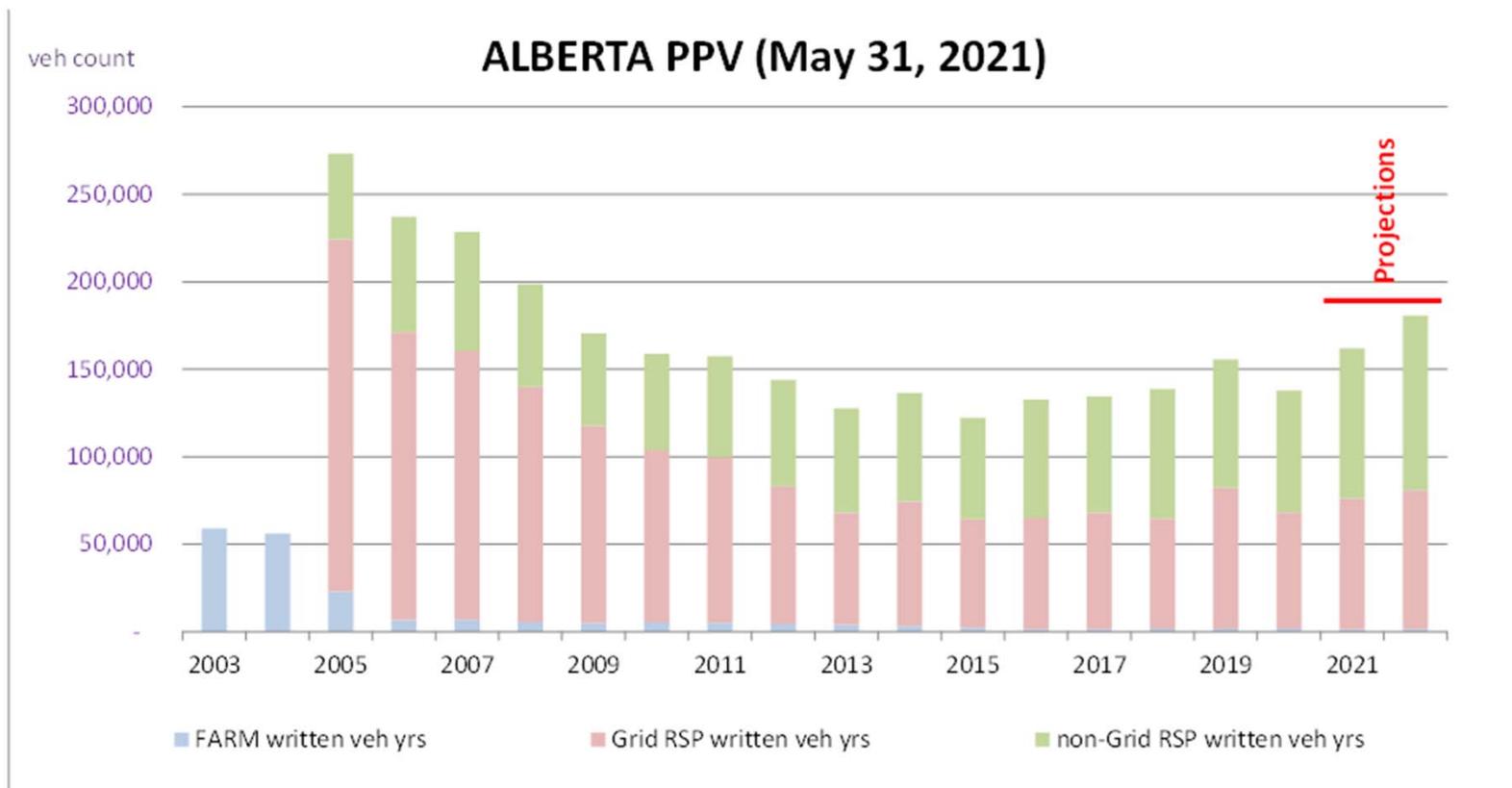
UIP

Enable Market Availability by ensuring accurate risk history data is reported and available to permit a fair and accurate premium

Reporting

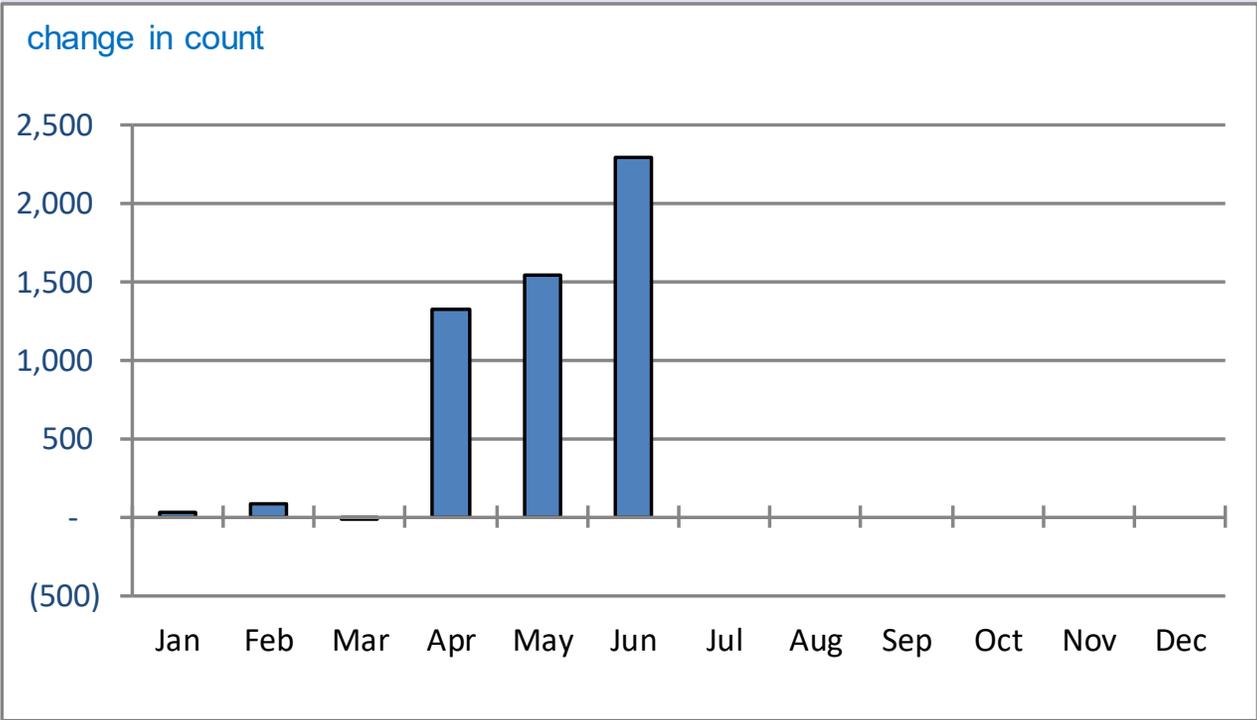
Ensure Future Availability by providing verified, reliable data and projections so members and stakeholders can monitor and plan

Alberta Market Share

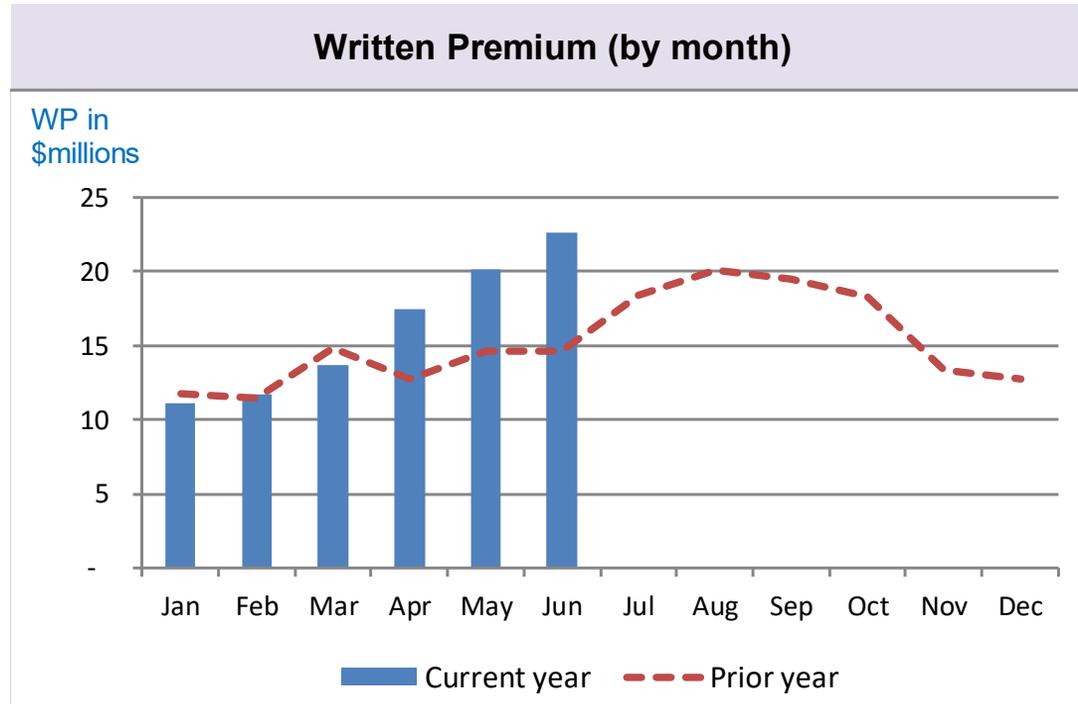


Grid Pool – Vehicle Counts

Yr-on-yr Chg in Written Veh Count (by month)

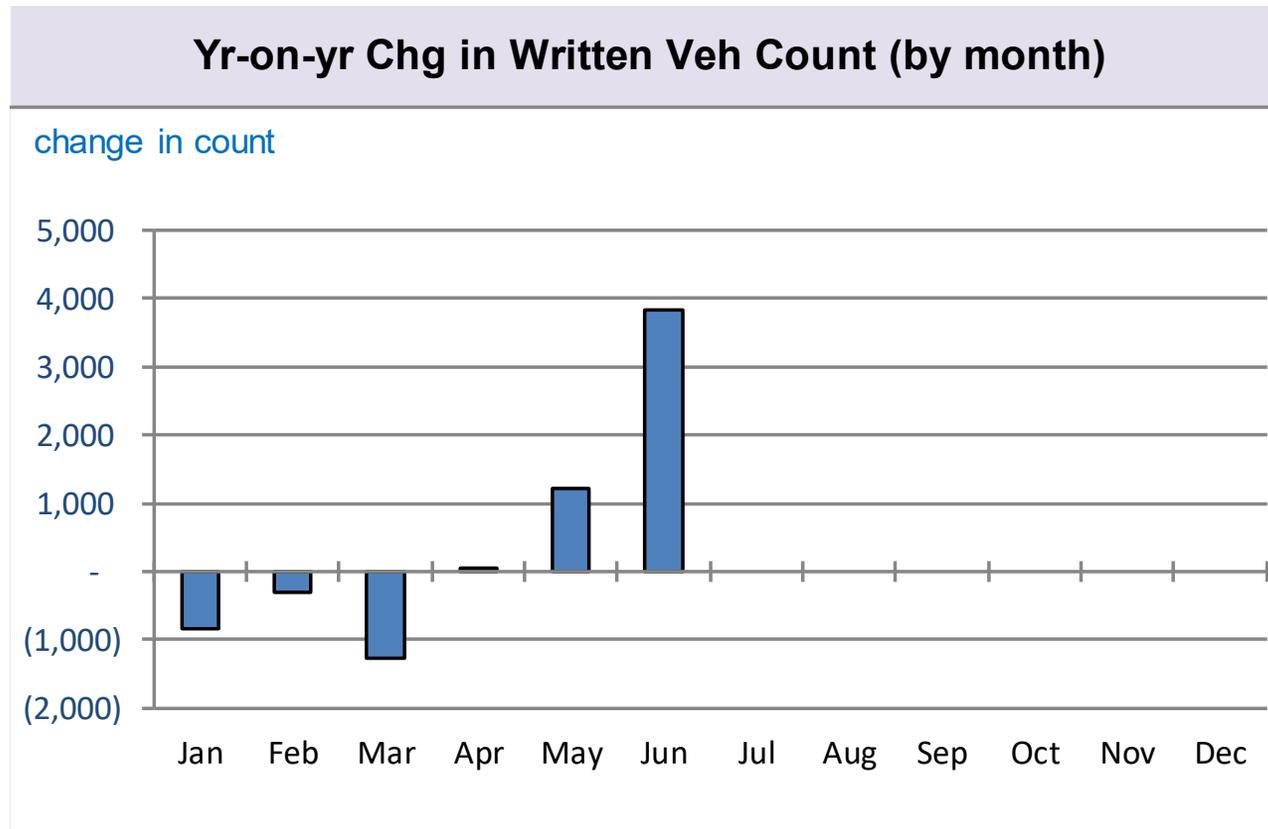


Grid Pool – Written Premium

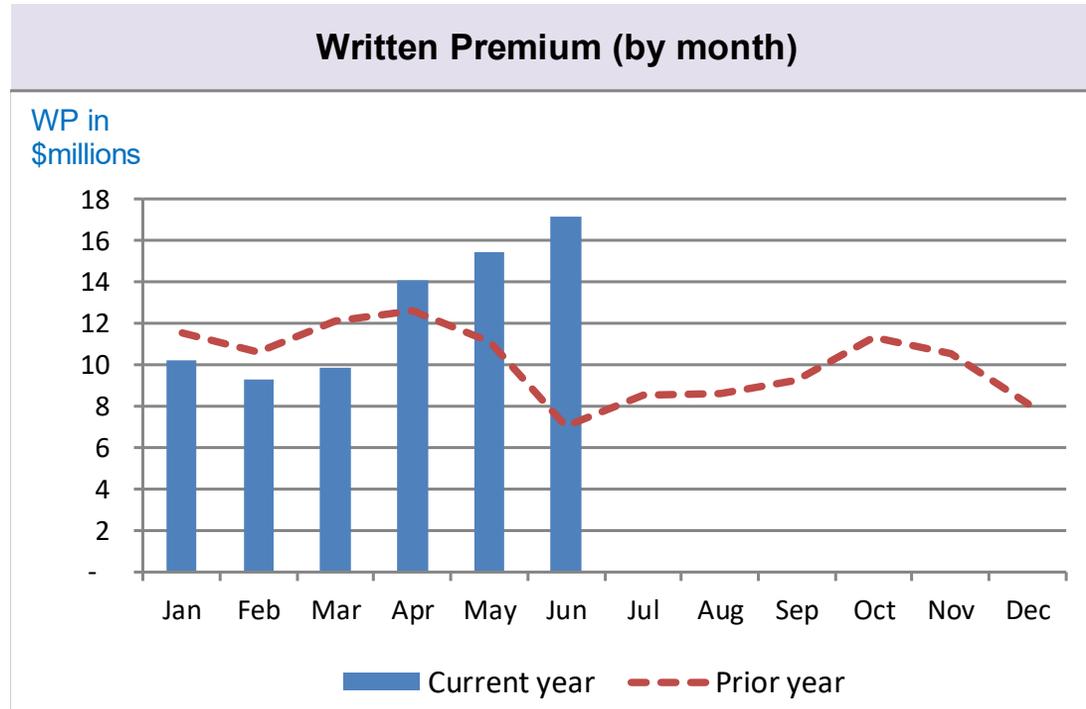


	Jun-21	Jun-20	Amt Chg	% Chg
WP (\$000s) YTD	96,868	80,101	16,767	20.9%

Non-Grid Pool – Vehicle Count



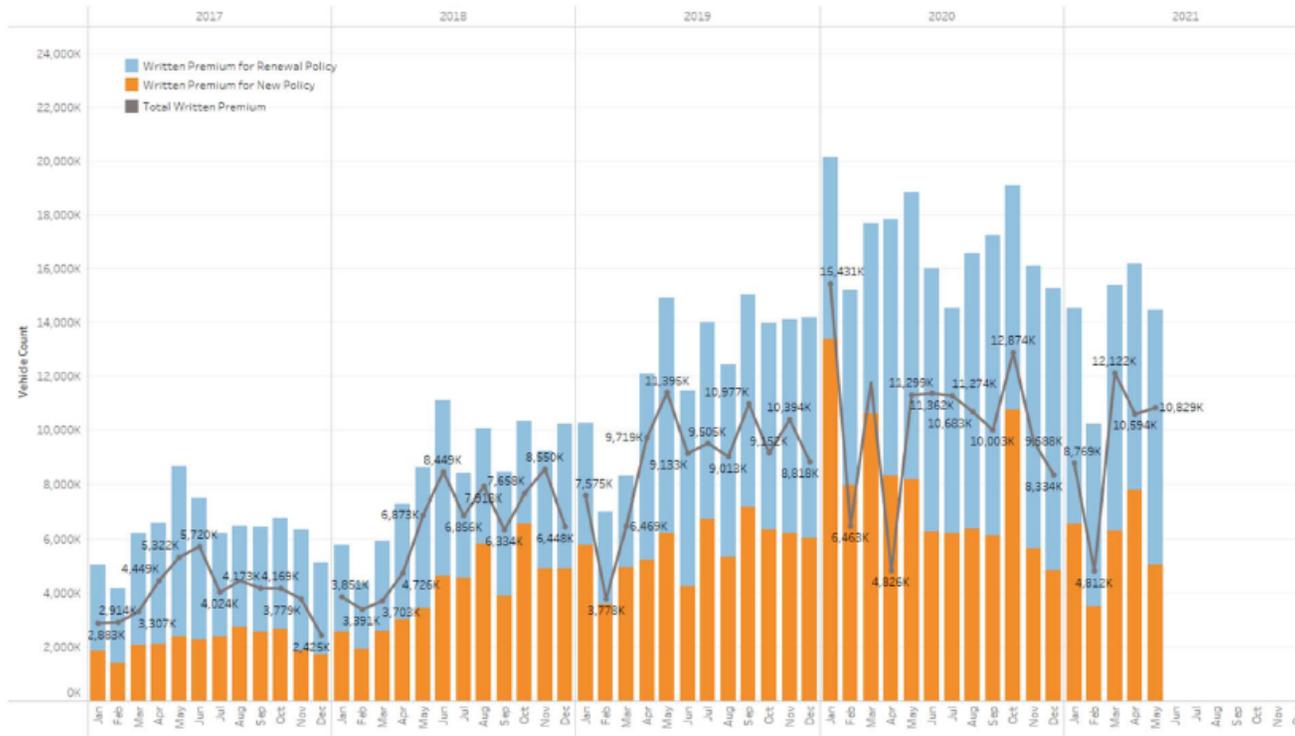
Non-Grid Pool – Written Premium



	Jun-21	Jun-20	Amt Chg	% Chg
WP (\$000s) YTD	76,052	65,032	11,020	16.9%

FARM Non-PPV – Written Premium New & Renewal

FARM Alberta Non-PPV Written Premium by New and Renewal Business
(as at share date: May 2021)



DCPD – Impact of Grid makes Alberta Unique

- The introduction of DCPD means claimants are dealing primarily with their chosen insurance provider, and costing of the system can be more precisely segmented.
- DCPD does not change the overall cost in the system; DCPD re-allocates cost to higher rate group vehicles.
- DCPD does result in premium dislocation at its introduction. This has been the case in all jurisdictions, but has not proven problematic as it generally operates as a progressive charge: those with more expensive vehicles paying slightly more, while those with older, lower value vehicles experiencing a decrease.
- GRID complicates the introduction of DCPD in Alberta, as does the interaction with the GRID and Non-GRID Pools.
- By legal construction, DCPD forms part of mandatory premium capped by Grid. FA supports AIRB/ MoF's decision to make DCPD equal to companies' DCPD, and thus avoid a major cost increase in company systems which would necessarily have translated to increased costs/ prices for Alberta consumers.

DCPD – Impact on FARM, Risk Sharing Pools

- DCPD has a disproportionate impact on **FARM** book
 - ~ 90% of the FARM book is grid capped
 - Less physical damage coverage
 - Larger impact on Higher Risk profiles (FARM has more higher grid step risks compared with industry)
- FA supports the AIRB decision to place DCPD “outside the brackets” of the calculation of GRID, and adjust the GRID cap proportionally to maintain consumer protection.
 - The introduction of DCPD will inevitably result in dislocation in premium, and that dislocation will impact the number of risks subject to the grid cap, and consequently in the GRID POOL.
 - The construction chosen by AIRB ensures that the dislocation is limited to the introduction of DCPD, and does not result in ‘flipping’ of risks in and out of GRID and GRID Pool.
- The consequence of the above is positive for the industry, and for consumers, as it avoids the ongoing confusion and cost of risks ‘flipping’ in and out of the two Pools as vehicles are substituted, or age.

Range of Reasonability

- Rate making is an exercise in predicting the future
- All predictions are, by definition, estimates, and estimates can be incorrect
- Annual review sets factors which operate to construct a cap on rate level
- Companies are always permitted to charge less than the filed rate
- The annual review should allow companies a range of reasonable factors

Conclusions

- There remains uncertainty as we emerge from the pandemic;
- The introduction of Direct Compensation Property Damage coverage provides consumer benefits, but will necessarily result in some dislocation;
- DCPD is additionally complex in Alberta because of GRID;
- FA supports the steps taken by AIRB to limit the impact on companies and the RSPs;
- Ratemaking is always a prospective exercise, and as such a range of reasonability approach remains FA's recommendation;
- A healthy private sector insurance market is the best environment to provide Albertans with competition and choice.

Thank You