

Alberta Automobile Insurance Rate Board

2014 Annual Review of Auto Insurance Premiums

Open Meeting August 19, 2014

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 subsequent eligibility criteria

Risk Sharing Pool Risks

- 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 amount 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 move to a “file and approve” system of rate regulation in Alberta 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

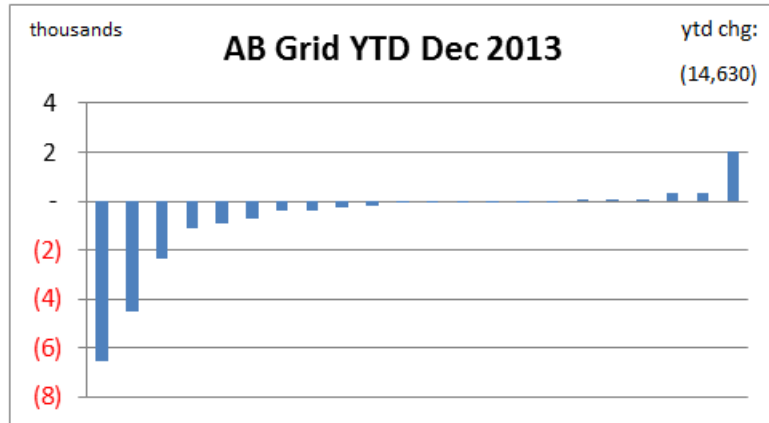
Alberta Risk Sharing Pools – Market Share (Written Premium Basis)						
	Total		Grid RSP		Non-Grid RSP	
Year	W. Prem	Mkt Share	W. Prem	Mkt Share	W. Prem	Mkt Share
2009	\$317,089,241	13.8%	\$242,035,611	10.5%	\$75,053,630	3.3%
2010	\$278,161,214	11.2%	\$203,185,486	8.2%	\$74,975,728	3.0%
2011	\$267,328,606	10.6%	\$191,576,497	7.6%	\$75,752,109	3.0%
2012	\$241,099,956	9.1%	\$160,342,475	6.0%	\$80,757,481	3.0%
2013	\$217,733,967	7.7%	\$135,874,432	4.8%	\$81,859,535	2.9%

Alberta Risk Sharing Pools - Size

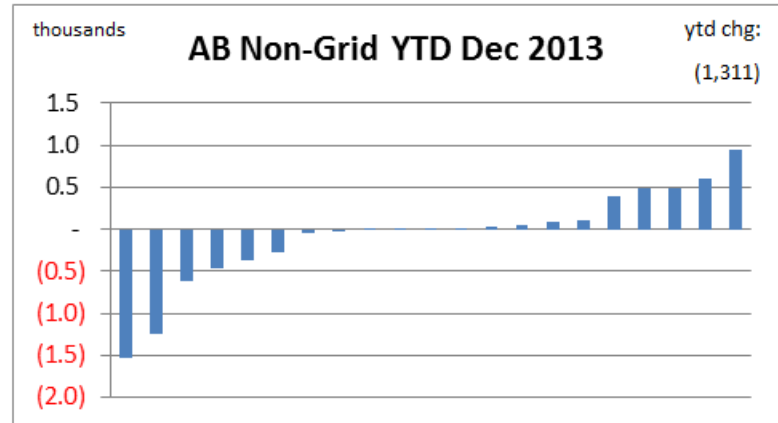
Alberta Risk Sharing Pools – Market Share (Written Exposure Basis)						
	Total		Grid RSP		Non-Grid RSP	
Year	W. Exp	Mkt Share	W. Exp	Mkt Share	W. Exp	Mkt Share
2009	165,579	7.6%	112,921	5.2%	52,658	2.4%
2010	153,661	6.6%	98,384	4.2%	55,277	2.4%
2011	152,402	6.5%	94,610	4.0%	57,792	2.5%
2012	139,502	5.7%	78,609	3.2%	60,893	2.5%
2013	123,561	4.9%	63,979	2.5%	59,582	2.3%

Alberta Risk Sharing Pools – Company Member Group Activity during 2013

Change in RSP Pool Transfers - by Company Member Group



	# grps	chg
decliners:	16	(17,421)
no changers:	-	-
growers:	6	2,791



	# grps	chg
decliners:	8	(4,562)
no changers:	-	-
growers:	13	3,251

Top 6 Private Passenger Residual Market Jurisdictions in North America

	<u>Market Share</u>
Nunavut	30.1%
North Carolina	22.0% ¹
Northwest Territories	15.9%
Alberta (RSP & FARM)	5.1%
Newfoundland & Labrador	3.9%
New Brunswick (RSP & FARM)	3.3%

¹ Source: Insurance Information Institute (U.S.A.) data is for 2012

Alberta Risk Sharing Pools – Ultimate Loss Ratio

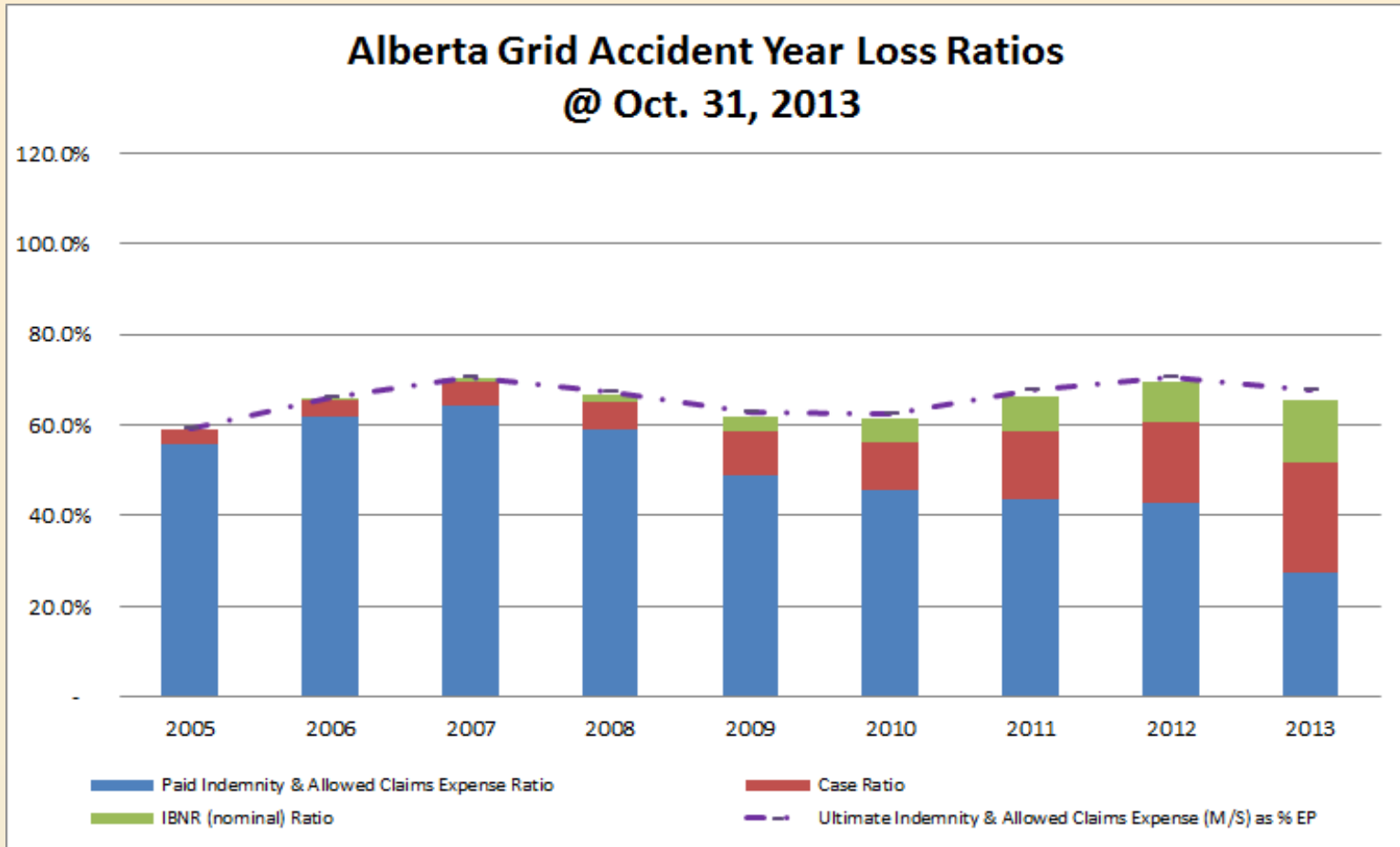
Period	----- Accident Year -----					
	2008	2009	2010	2011	2012	2013
Grid RSP						
as at Oct 31, 2009*	70.7%	67.5%				
as at Oct 31, 2010	64.7%	61.1%	60.8%			
as at Oct 31, 2011	65.7%	59.4%	60.0%	64.1%		
as at Oct 31, 2012	66.4%	60.4%	59.7%	63.7%	67.8%	
as at Oct 31, 2013	66.8%	62.0%	61.3%	66.4%	69.4%	65.6%
Non-Grid RSP						
as at Oct 31, 2009*	101.4%	101.6%				
as at Oct 31, 2010	100.9%	94.6%	92.6%			
as at Oct 31, 2011	101.0%	91.7%	85.9%	95.4%		
as at Oct 31, 2012	102.4%	94.2%	86.5%	85.8%	96.1%	
as at Oct 31, 2013	104.5%	97.6%	94.8%	83.8%	101.9%	96.0%
Industry**						
as at Dec. 31, 2012	61.3%	58.1%	60.8%	57.3%	63.7%	
as at Dec. 31, 2013	61.5%	58.7%	61.7%	58.7%	65.4%	64.6%

** **Industry** loss ratios in this table reflect **indemnity only** – while they do include IBNR (related to indemnity), they do **NOT** include any loss adjustment expenses nor loading for other expenses such as health care levies.

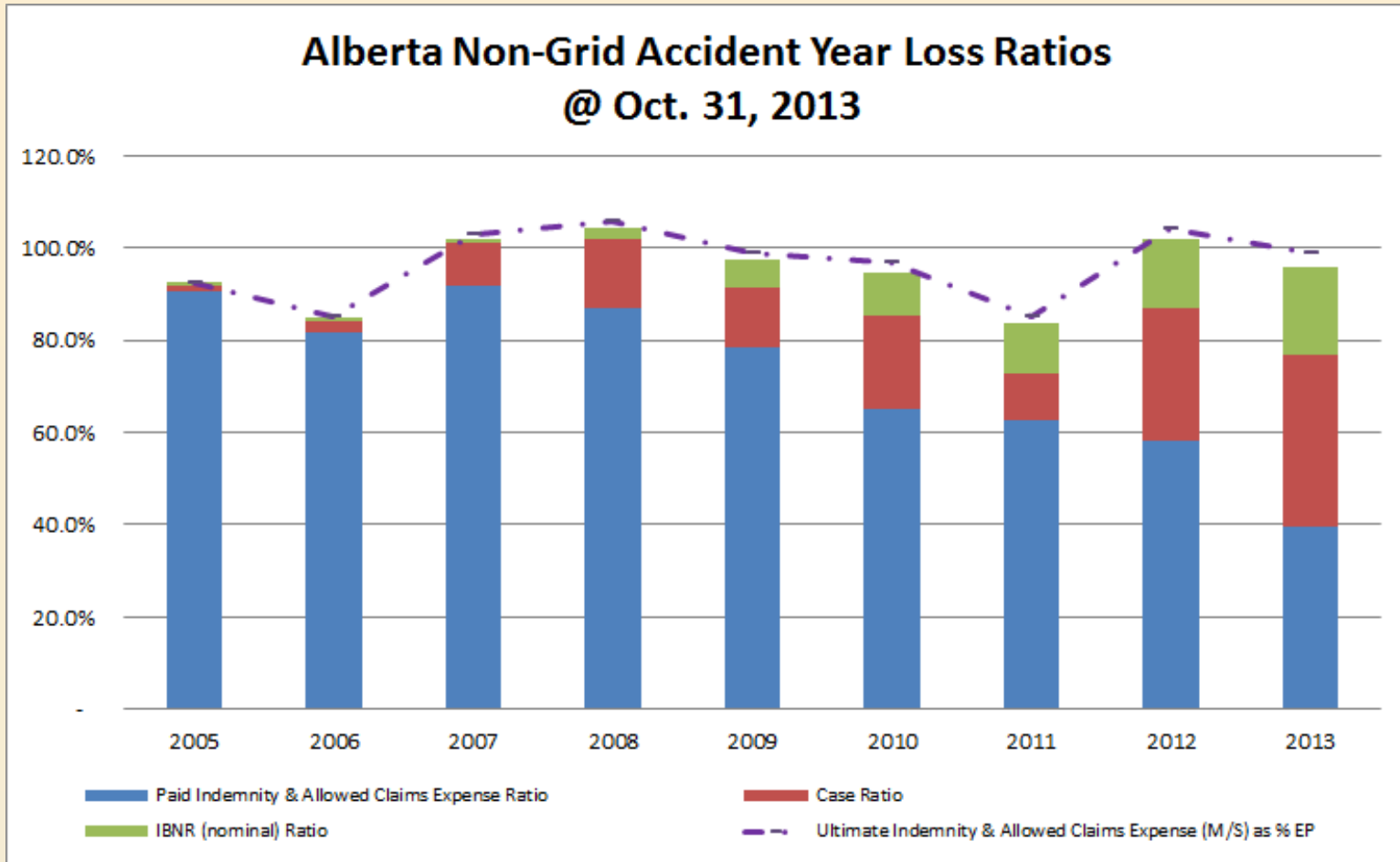
This is to make the industry loss ratios more akin to those of the RSPs shown here, being indemnity with some additional specifically allowed adjustment expenses.

* The Undiscounted Estimated Ultimate Loss Ratios as at October 31, 2009 reflect both the exclusion of the provision for the MIR court challenge and revisions to the accident year estimates.

Alberta Risk Sharing Pools – Grid Pool Accident Year Ultimate Loss Ratios @ Oct 31, 2013



Alberta Risk Sharing Pools – Non-Grid Pool Accident Year Ultimate Loss Ratios @ Oct 31, 2013



Alberta Risk Sharing Pools - Financial Results

Alberta Risk Sharing Pools - Excess/(Deficiency) of Revenue over Expenses (\$'000)			
Fiscal Year	Grid RSP	Non-Grid RSP	Combined
2005 (13 months)	(\$93,902)	(\$28,038)	(\$121,940)
2006	\$8,498	(\$30,562)	(\$22,064)
2007	\$93,357	(\$9,422)	\$83,935
2008	(\$73,490)	(\$29,955)	(\$103,445)
2009	\$85,747	(\$9,184)	\$76,563
2010	\$83,893	(\$1,114)	\$82,779
2011	\$13,432	(\$17,668)	(\$4,236)
2012	(\$1,556)	(\$20,953)	(\$22,509)
2013	(\$14,452)	(\$37,883)	(\$52,335)
Total	\$101,527	(\$184,779)	(\$83,252)

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 Pools reduce 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

Preferred Outcomes

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

Preferred Outcomes

- Smaller Risk Sharing Pools
- Mitigates volatility impacts
- Consumers benefit from 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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