

# **Alberta Automobile Insurance Rate Board**

**2015 Annual Open Meeting**

**August 18, 2015**

# 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](http://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
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%
2014	\$238,352,224	7.8%	\$155,765,149	5.1%	\$82,587,075	2.7%

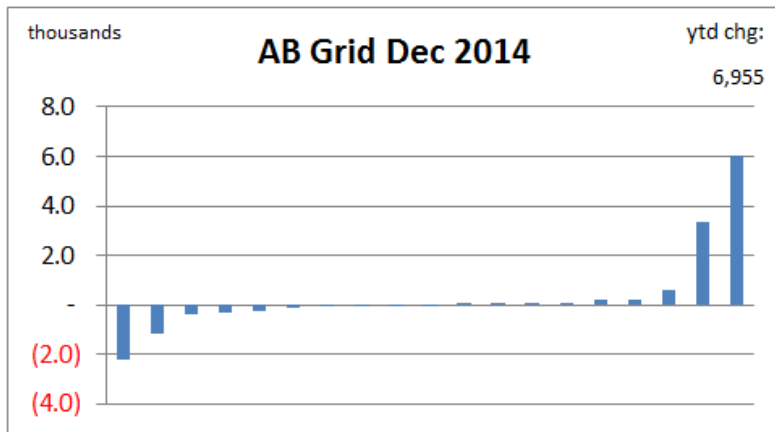
# Alberta Risk Sharing Pools - Size

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
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%
2014	133,164	5.1%	70,934	2.7%	62,230	2.4%

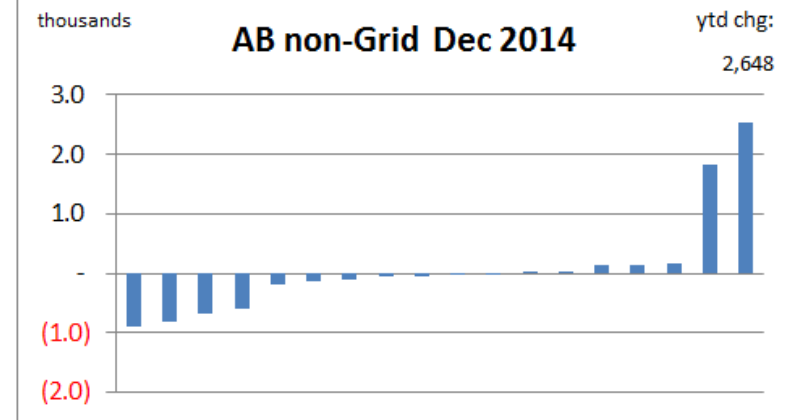
# Alberta Risk Sharing Pools – Company Member Group Activity during 2014

FOR CURRENT CALENDAR YEAR-TO-DATE TO Dec 2014

## Change in RSP Pool Transfers - by Company Member Group



	# grps	chg
decliners:	10	(4,377)
no changers:	-	-
growers:	11	11,332



	# grps	chg
decliners:	11	(3,507)
no changers:	-	-
growers:	9	6,155

# Top 6 Private Passenger Residual Market Jurisdictions in North America

	<u>Market Share</u> <u>(vehicles)</u>
Nunavut	27.0%
North Carolina	22.0% <sup>1</sup>
Northwest Territories	15.1%
Alberta (RSP & FARM)	5.3%
Newfoundland & Labrador	3.7%
New Brunswick (RSP & FARM)	3.3%

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

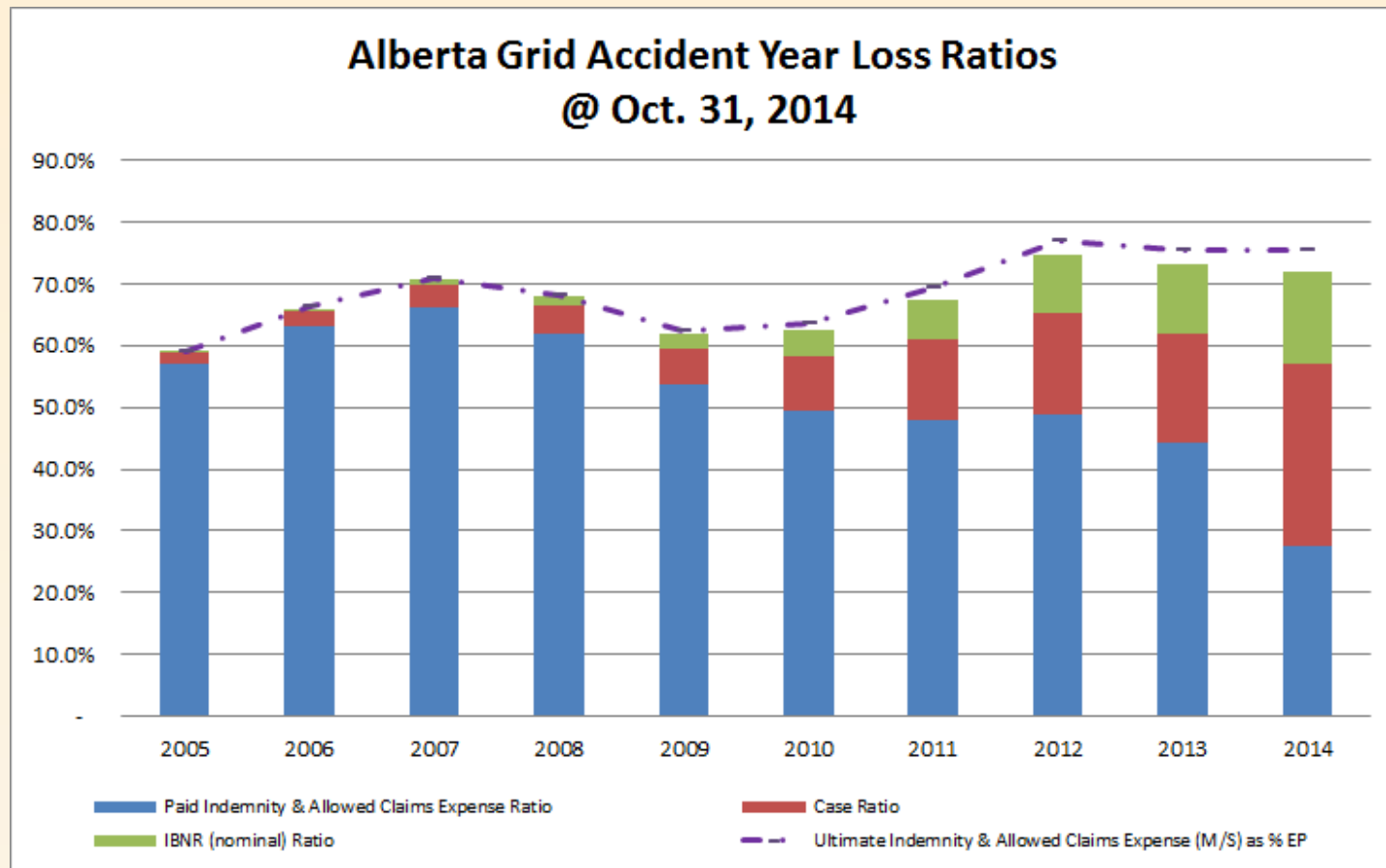
# Alberta Risk Sharing Pools – Ultimate Loss Ratio

Period	----- Accident Year -----					
	2009	2010	2011	2012	2013	2014
<b>Grid RSP</b>						
as at Oct 31, 2010	61.1%	60.8%				
as at Oct 31, 2011	59.4%	60.0%	64.1%			
as at Oct 31, 2012	60.4%	59.7%	63.7%	67.8%		
as at Oct 31, 2013	62.0%	61.3%	66.4%	69.4%	65.6%	
as at Oct 31, 2014	61.9%	62.6%	67.5%	74.7%	73.1%	70.3%
<b>Non-Grid RSP</b>						
as at Oct 31, 2010	94.6%	92.6%				
as at Oct 31, 2011	91.7%	85.9%	95.4%			
as at Oct 31, 2012	94.2%	86.5%	85.8%	96.1%		
as at Oct 31, 2013	97.6%	94.8%	83.8%	101.9%	96.0%	
as at Oct 31, 2014	97.1%	91.1%	86.7%	103.7%	101.5%	102.2%
<b>Industry*</b>						
as at Dec. 31, 2012	58.1%	60.8%	57.3%	63.7%		
as at Dec. 31, 2013	58.7%	61.7%	58.7%	65.4%	64.6%	
as at Dec. 31, 2014	61.2%	63.4%	60.9%	68.9%	68.4%	70.0%

\*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.

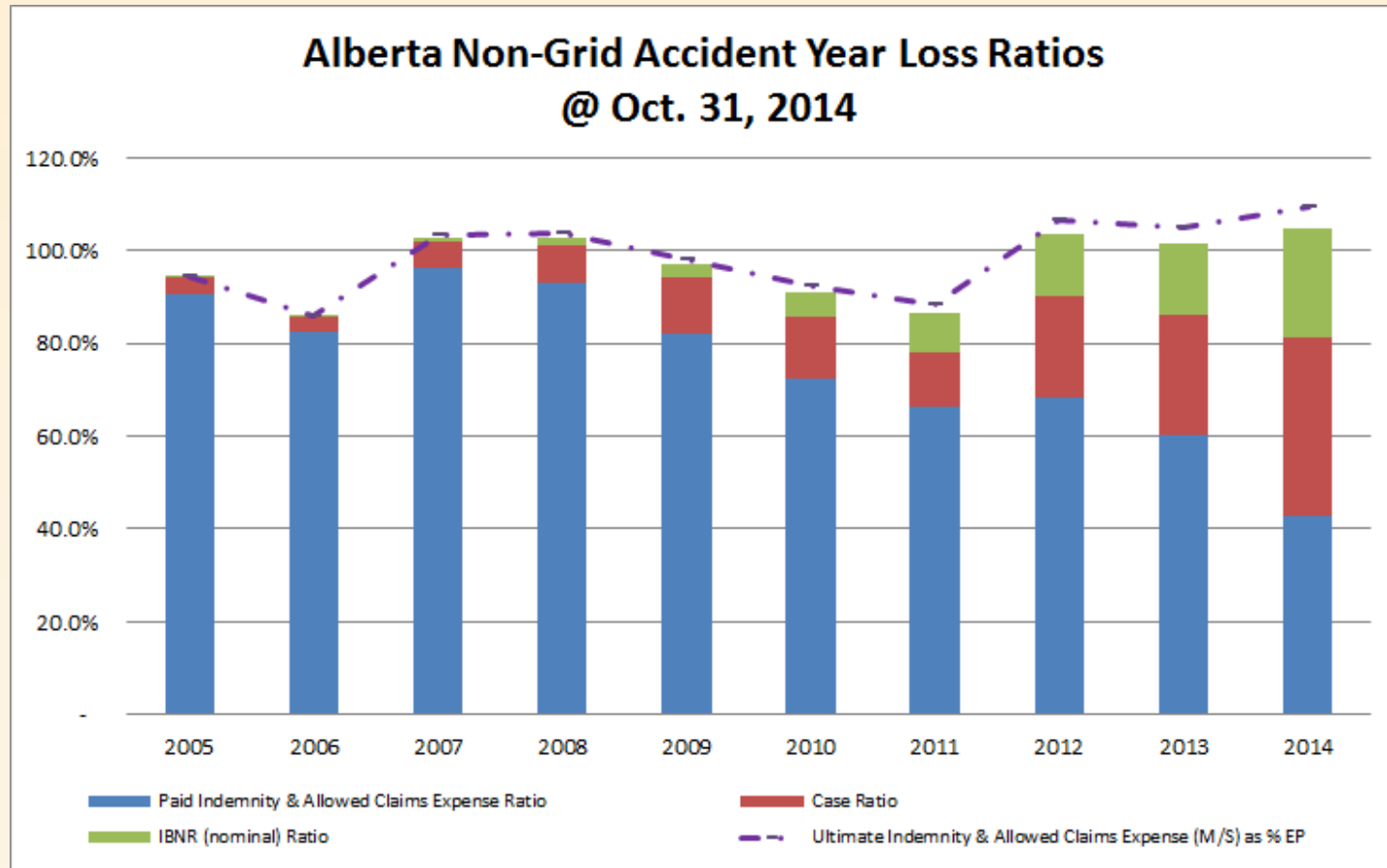
This is to make the industry loss ratios more akin to those of the RSPs shown here, being indemnity with some additional specifically allowed adjustment expenses.

# Alberta Risk Sharing Pools – Grid Pool Accident Year Ultimate Loss Ratios @ Oct 31, 2014





# Alberta Risk Sharing Pools – Non-Grid Pool Accident Year Ultimate Loss Ratios @ Oct 31, 2014



# 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)
2014	(\$39,190)	(\$40,653)	(79,843)
<b>Total</b>	<b>\$62,337</b>	<b>(\$225,432)</b>	<b>(\$163,095)</b>

# 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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