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July 22, 2016

Mr. Del Dyck
Executive Director
Alberta Automobile Insurance Rate Board
2440 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3N6

Via email airb@gov.ab.ca

Re: Annual Review of Automobile Insurance Loss Experience

Dear Mr. Dyck,

Please find enclosed the required signed original of the Facility Association submission to the Alberta Automobile Insurance Rate Board's Annual Review of Automobile Insurance Loss Experience.

Attending at our presentation on behalf of Facility Association will be:

David Simpson, President & CEO
Shawn Doherty, Senior Vice President, Actuarial & CFO

Please also find enclosed a signed disclosure form.

With respect to our presentation needs, we will be using a laptop-driven PowerPoint presentation to highlight facts and themes from our submission. A projector (with USB cable connectivity) and screen are all that we need. We will email the presentation to you no later than August 5th.

If you require anything further in the interim, please let me know directly.

Yours truly,

A handwritten signature in black ink, appearing to read 'David J. Simpson', written in a cursive style.

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

c.c.: Patrick Barbeau, Facility Association Board Chair

Alberta Automobile Insurance Rate Board

Annual Review of Automobile Insurance Trends and Premiums
August 16, 2016

 **FACILITY** **Submission**
Association **July 22, 2016**

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

1 **INTRODUCTION**

2
3 This submission provides the Alberta Automobile Insurance Rate Board (AIRB) with an annual
4 update on the size, volume trends and financial performance of the two Alberta Risk Sharing Pools
5 and the residual market segment for private passenger vehicles administered by Facility
6 Association on behalf of automobile insurers in the province. It is patterned on previous annual
7 updates for ease of comparison.

8
9 [Appendix 1](#) provides both a background to the history and operation of the Alberta Risk Sharing
10 Pools, and a brief overview of Facility Association’s other operations in the province.

11
12 Facility Association’s Mission and Vision are:

13
14 **Mission**

15
16 Facility Association’s mission is to administer automobile insurance residual
17 market mechanisms, enhance market stability, and guarantee the availability of
18 automobile insurance to those eligible to obtain it. We strive to keep the market
19 share of the residual markets as small as possible, so consumers may benefit from
20 the competitive marketplace to the greatest extent possible.

21
22 **Vision**

23
24 Facility Association’s vision is to be recognized and relied upon as a highly
25 efficient and effective administrator of automobile insurance residual markets,
26 whose objective opinion on residual markets and related issues is respected and
27 sought by stakeholders.

28
29 It can be seen that our position continues to be that residual market volumes (both in the Risk
30 Sharing Pools and the residual market segment) should be as small as possible. This stems from
31 the belief that consumers are best served by companies competing directly for their business in an
32 environment where those companies do not have to base decisions on how they approach the
33 competitive marketplace on the potential impacts arising from their compulsory participation in
34 residual market mechanisms. That is, residual market mechanisms should be small enough that
35 their presence in a compulsory auto insurance jurisdiction should be “incidental” to a company’s
36 competitive participation in that jurisdiction.

38 In 2015, we saw a decrease in written premiums transferred to the Risk Sharing Pools (RSPs) on a
 39 combined basis as the total premium volume transferred declined \$14.1 million, or 5.9%, from
 40 \$238.3 million to \$224.3 million. The decrease was due to the premium decline in the Grid RSP
 41 (down \$17.5 million or 11.2%), whereas the non-Grid RSP premium increased (up \$3.4 million or
 42 4.1%). At \$224.3 million, written premium transferred to both RSPs are estimated to represent
 43 approximately 7.0% of all private passenger¹ automobile insurance premiums written in Alberta in
 44 2015, down from the 7.8% estimated for 2014.

45

46 Please see Table 1 below for a summary of Risk Sharing Pools written premium and estimated
 47 market share data for the last five years.

48

Table 1						
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
2011	\$267,328,606	10.5%	\$191,576,497	7.5%	\$75,752,109	3.0%
2012	\$241,099,956	9.0%	\$160,342,475	6.0%	\$80,757,481	3.0%
2013	\$217,733,967	7.6%	\$135,874,432	4.7%	\$81,859,535	2.9%
2014	\$238,352,224	7.8%	\$155,765,149	5.1%	\$82,587,075	2.7%
2015	\$224,296,612	7.0%	\$138,308,631	4.3%	\$85,987,981	2.7%

49

50 On a written exposure count basis (exposure is defined as one car insured for one year), a total of
 51 approximately 120,000 exposures were transferred to both RSPs in 2015, down approximately
 52 13,500 (10.1%) from 2014 – the lowest level for a full calendar year since the introduction of the
 53 RSPs in 2004. The exposure count decreased in both RSPs in 2015 (the Grid RSP was down by
 54 approximately 9,100 exposures or 12.9% and the Non-Grid RSP was down approximately 4,400
 55 or 7.0%). We note that information from Insurance Bureau of Canada indicates that the total
 56 percentage of the market (on an earned exposure basis) subject to the premium grid has been
 57 declining since 2012. It is also important to remember that not all risks subject to the premium
 58 grid are transferred to the Grid RSP. We note also that the Superintendent’s Office has issued a
 59 consultation paper on the Automobile Insurance Premiums Regulation and we are hopeful that the
 60 consultation process will lead to the premium grid being more tightly focused on specific groups
 61 of drivers. Because risks subject to the premium grid are eligible for transfer to the Grid RSP,
 62 reducing the number of risks subject to the premium grid would lead to a reduction in the

¹ Private passenger here refers to individually-rated private passenger including farmers, as per data available from GISA as at July 20, 2016.

63 maximum number of risks eligible to be transferred to the Grid RSP in alignment with our
 64 mission.

65

66 Please see Table 2 below for a summary of Risk Sharing Pool written exposure and estimated
 67 market share data for the last five years and projections for 2016 and 2017.

68

Table 2						
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
2011	152,402	6.3%	94,610	3.9%	57,792	2.4%
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	137,026		65,044		71,982	
2017	152,092		79,317		72,775	

2016 and 2017 exposure counts are projections per the 2017 RSP Preliminary Outlook posted June 26, 2016 to the FA website (www.facilityassociation.com)

69

70 Departing somewhat from the annual update nature of this submission, we would like to call to the
 71 AIRB’s attention the Outlook for the RSPs for calendar 2017 that we published to our website on
 72 June 26th of this year. The Outlook is based both on information we receive from larger RSP using
 73 companies and our own internal calculations. In that Outlook, we are forecasting that written
 74 exposures transferred to both Alberta RSPs will increase in 2016 and 2017 as presented in the last
 75 2 rows of Table 2, where the exposure projections are derived from projections provided by the
 76 larger users of the RSPs.

77

78 More details on these projections and the estimate of the financial results of the RSPs for 2016 and
 79 2017 may be found in the Outlook bulletin (bulletin F16-048) on our website. It is very important
 80 to remember that the Outlooks are a forward looking exercise thus the final numbers may differ,
 81 perhaps by substantial amounts, from those presented in Table 2.

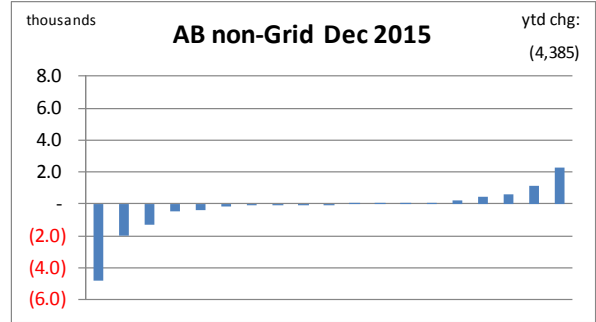
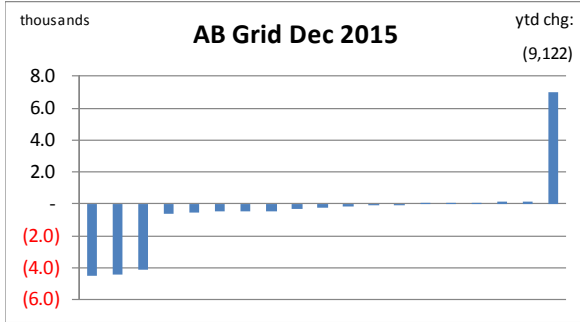
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83 While there was an overall decrease in transfers in both RSPs in 2015, the changes in usage at the
 84 Member Company Group level is more nuanced, as indicated in the charts at the top of the next
 85 page. Specifically, while there was an overall decrease for the Grid RSP, almost one third (6 of
 86 19) active Member Company Groups increased their transfers. Moreover, while there was also an

87 overall decrease for the Non-Grid RSP, almost one half (9 of 19) increased their transfers during
 88 2015.
 89

FOR CURRENT CALENDAR YEAR-TO-DATE TO Dec 2015

Change in RSP Pool Transfers - by Company Member Group



	# grps	chg
decliners:	13	(16,406)
no changers:	-	-
growers:	6	7,284

	# grps	chg
decliners:	10	(9,223)
no changers:	-	-
growers:	9	4,838

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Facility Association also administers the private passenger residual market segment, a small volume, tightly defined pooling mechanism for higher-risk cars and drivers. The annual premiums for approximately 75-85% of private passenger exposures insured through the residual market segment are capped by the insurance premium regulation grid. The market share of the private passenger residual market segment has been declining over the last five years as Table 3 shows.

Year	W. Premium	Market Share	W. Exposure	Market Share
2011	\$16,752,673	0.7%	5,755	0.2%
2012	\$16,053,755	0.6%	5,282	0.2%
2013	\$15,176,036	0.5%	4,844	0.2%
2014	\$14,140,333	0.5%	4,250	0.2%
2015	\$11,807,930	0.4%	3,110	0.1%

98
 99
 100
 101

The market share of the Alberta private passenger residual markets on a combined basis (i.e. FARM and RSPs), remain among the largest in North America, behind only Nunavut, North Carolina, and the Northwest Territories as shown in Table 4.

² This table excludes private passenger risks that are rated as part of a fleet.

102

Jurisdiction	Market Share (vehicles)¹
Nunavut	30.1%
North Carolina	23.5%
Northwest Territories	15.9%
Alberta (RSP & FARM)	4.5%
New Brunswick (RSP & FARM)	3.5%
Newfoundland & Labrador	3.3%
Nova Scotia (RSP & FARM)	2.8%
Massachusetts	2.0%
Yukon	2.0%
Ontario (RSP & FARM)	1.9%

¹ Sources: Canadian data is for 2015 (except Territories: 2014 data); USA data is for 2013 as per Insurance Information Institute (<http://www.iii.org/fact-statistic/auto-insurance>)

103

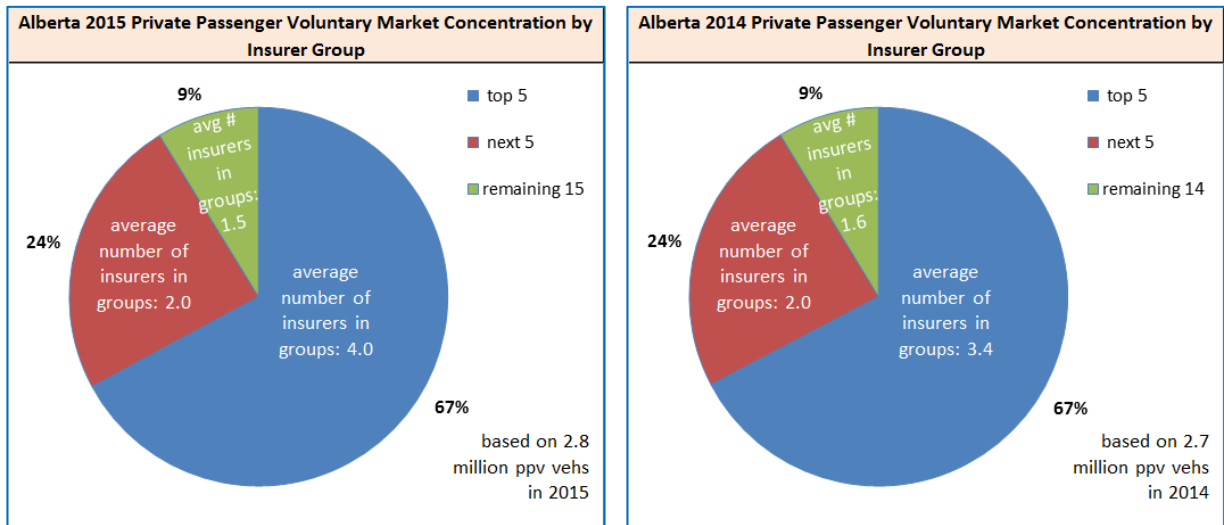
104 The size of the Risk Sharing Pools can be influenced by a number of factors. Insurers tend to keep
105 on their own books risks they believe to be adequately priced, and transfer to the Risk Sharing
106 Pools (subject to eligibility rules) risks they believe to be inadequately priced.

107

108 It is worthwhile to note that when we talk about “insurers”, “industry” and “member companies”
109 in the context of private passenger vehicle insurance in Alberta, we are talking about a relatively
110 small number of companies. For 2015, the top five companies (at the group level) represent
111 approximately 67% of the insured private passenger exposures in Alberta, while the top 10
112 represent 91% (unchanged from a year ago), as shown in Figure 1 at the top of the next page. The
113 presence of several relatively large insurers in the province means that the decisions of one of
114 them on what they will or will not transfer to an RSP can make a significant difference both in the
115 volumes and in the financial results of that RSP.

116

117 Figure 1: Market Concentration – 2015³ vs 2014



118

119

120 In general, there is a correlation between residual market size and the degree of price competition
 121 permitted in a given jurisdiction. In the United States, rate regulation is under the authority of
 122 individual states similar to the provincial authority that exists in Canada. In the last decade or so
 123 there has been an increased trend in the U.S. to allow the competitive forces of the marketplace to
 124 regulate prices. Interestingly, for 2013 (the most recent year for which data is available), 38 states
 125 of the 49 states reporting data had less than 500 private passenger cars insured through residual
 126 market mechanisms, and 45 of 49 states reporting data had less than 1% of private passenger cars
 127 insured through residual market mechanisms (Texas does not report data).

128

129 Last year, we said:

130

131 “Because we believe residual markets should be as small as possible, we are
 132 encouraged by the fact that Alberta has moved away from the previous “one size
 133 fits all” nature of the previous industry-wide rate adjustment process to a “File
 134 and Approve” system which reviews rates on a company-by-company basis. To
 135 the extent the new rate regulation system recognizes the unique pricing,
 136 underwriting and marketing approaches of each company, and to the extent it
 137 allows companies to have greater confidence in their pricing programs, we
 138 would expect to see an increase in competition in the marketplace. To the extent

³ The Aviva / RBC transaction is not included in the 2015 concentration chart. In 2015, Aviva was ranked 6th and RBC 13th – this combination would move Aviva/RBC into the top 5, increasing the top-5 share to 69%, while reducing the “remaining” share to 7% through the cascading impact of the transaction on remaining group rankings.

139 competition is increased, we would expect to see a decline in residual market
140 volumes (all other things being equal), especially in the Non-Grid RSP.”

141

142 Based on our projections that both the Grid-RSP and Non-Grid RSP will see their exposure
143 volumes increase over the next couple of years, it would seem clear that all other things are not
144 equal, and that likely claims cost pressures are exceeding premium levels at least in the short-term.
145 Recent rate increase approvals published by the AIRB would suggest that this is likely the case.
146 That said, we continue to believe that pricing flexibility combined with product cost stability will
147 be correlated with lower residual market volumes over time.

148

149 We also continue to believe that moving even further beyond a “File and Approve” system to one
150 of open competition under the price ceiling provided by the premium grid regulation at some point
151 in the future would provide an additional opportunity to reduce the number of cars insured through
152 the residual market mechanisms.

153

154 Facility Association also believes competition could be increased to the benefit of consumers by
155 making the transfer of Section C coverage premium to the Grid RSP optional for insurers. We
156 have provided a briefing note to the Superintendent on this issue and look forward to further
157 dialogue with his office on the matter.

158

159 **FINANCIAL PERFORMANCE**

160

161 Table 5 at the top of the next page summarizes the financial performance of the Risk Sharing
162 Pools since inception. The data in the table is taken directly from our audited financial statements.

163

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)
Total	(\$182,855)	\$61,746	(\$244,601)

165

166 Automobile insurance is a business based on estimates – the true results of a given accident year
 167 cannot be known until many years in the future. Deriving estimates (especially initial estimates)
 168 for the RSPs is especially challenging from an actuarial perspective as it involves taking into
 169 account the independent decision-making of member companies with respect to what types of
 170 risks they will transfer to a given pool. The estimated ultimate loss ratios for the RSPs by accident
 171 year and how those estimates have evolved over the last five years are shown in Table 6 (top of
 172 next page). Please note these loss ratios include indemnity payments and only loss adjustment
 173 expenses specifically allowed (generally legal and professional expenses – all other loss
 174 adjustment expenses are reimbursed to members using the RSPs through an expense allowance).
 175 As such, care must be taken in comparing these results with loss ratio exhibits that DO include
 176 adjustment expenses.

177

178 The industry loss ratios shown in Table 6 at the top of the next page are indemnity only and are
 179 Facility Association's internal estimates.

Table 6						
Alberta Risk Sharing Pools and Industry Private Passenger – Undiscounted Estimated Ultimate Loss Ratio						
Period	----- Accident Year -----					
Grid RSP	2010	2011	2012	2013	2014	2015
as at Oct 31, 2011	60.0%	64.1%				
as at Oct 31, 2012	59.7%	63.7%	67.8%			
as at Oct 31, 2013	61.3%	66.4%	69.4%	65.6%		
as at Oct 31, 2014	62.6%	67.5%	74.7%	73.1%	70.3%	
as at Oct 31, 2015	60.7%	66.3%	72.7%	73.7%	79.9%	75.3%
Non-Grid RSP	2010	2011	2012	2013	2014	2015
as at Oct 31, 2011	85.9%	95.4%				
as at Oct 31, 2012	86.5%	85.8%	96.1%			
as at Oct 31, 2013	94.8%	83.8%	101.9%	96.0%		
as at Oct 31, 2014	91.1%	86.7%	103.7%	101.5%	102.2%	
as at Oct 31, 2015	85.1%	85.1%	101.1%	102.0%	109.3%	100.3%
Industry*	2010	2011	2012	2013	2014	2015
as at Dec. 31, 2013	61.7%	58.7%	65.4%	64.6%		
as at Dec. 31, 2014	63.4%	60.9%	68.9%	68.4%	70.0%	
as at Dec. 31, 2015	63.1%	60.8%	68.4%	68.4%	70.1%	68.9%

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182

*Industry loss ratios:

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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 industry results more akin to RSP results, being indemnity with some additional specifically allowed adjustment expenses.

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FINANCIAL IMPACT ON THE INDUSTRY

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Because we must prepare our financial statements according to Generally Accepted Accounting Principles, our statements can only show the results of our own operations. As member companies incorporate their share of Risk Sharing Pool premiums and results into their own statements, they have to reflect items such as health levies, premium taxes, investment income, income tax effects

199 and their cost of capital on those premiums and results. In past years, we have modelled the
200 “overall industry impact” results. We are currently re-visiting the methodologies and assumptions
201 for those illustrations, and will make them available once that work is complete.

202

203 One could look at the overall financial results of the Risk Sharing Pools and conclude that the
204 presence of the Grid RSP has, and will continue to be, relatively benign. For those that do, we
205 would again provide the following notes of caution:

206

207 - On an accident year loss ratio basis, the Grid RSP loss experience has been worse than that
208 of the industry since inception. In the event of a deterioration in industry loss ratios, we
209 would expect the Grid RSP loss experience to deteriorate as well.

210

211 - Competitive enterprises need to generate a competitive level of return. To the extent that
212 companies may not be generating a competitive level of return on approximately 7.0% of
213 revenue (the current market share of the Alberta RSPs), that return must be generated from
214 those paying the remaining 93.0% of premium in the marketplace.

215

216 - Taken together, the Risk Sharing Pools represent a large volume of premium likely to
217 behave in a more volatile way than of most individual companies. Although this volatility
218 impacts all companies in a similar way, smaller companies with limited financial resources
219 very probably find those impacts more difficult to absorb. As well, the presence of such
220 large RSPs with their inherent volatility may act as a barrier to entry to insurers who would
221 otherwise seek the opportunity to serve Alberta consumers.

222

223 CONCLUSION

224

225 We stated near the beginning of this submission our belief that consumers are best served by
226 companies competing directly for their business in an environment where those companies do not
227 have to frame their business decisions based on potential financial impacts from residual market
228 mechanisms such as the Risk Sharing Pools and the Residual Market Segment.

229

230 Simply stated, maximizing insurance availability for consumers can be achieved in an
231 environment where both the costs associated with the insurance product are stable and where there
232 is a significant degree of pricing flexibility. In a similar vein, we continue to encourage, as we
233 have in previous years, that steps be taken to ensure the protection afforded by the premium grid
234 remains as tightly focused as possible on the group of consumers it is intended to protect and that

235 insurers be allowed to charge adequate rates for risks not targeted by the grid. We are pleased to
236 see the consultation process about the Automobile Insurance Premiums Regulation taking place
237 this summer and we will convey similar sentiments in that process as well. As long as the
238 premium grid remains in force, we believe allowing open price competition below the maximum
239 premium set by the grid will pave the way for the smallest possible residual market volumes in the
240 current regulatory framework.

241 **APPENDIX I: RISK SHARING POOLS BACKGROUND, AUTHORIZATION & OPERATION**

242
243 **BACKGROUND**

244
245 Facility Association is an administrative mechanism that administers involuntary residual market
246 automobile insurance on behalf of the voluntary/private sector automobile insurance industry
247 across Canada. Created by the industry and empowered by statute, Facility Association’s mission
248 and vision are:

249
250 **Mission**

251
252 Facility Association’s mission is to administer automobile insurance residual
253 market mechanisms, enhance market stability, and guarantee the availability of
254 automobile insurance to those eligible to obtain it. We strive to keep the market
255 share of the residual markets as small as possible, so consumers may benefit from
256 the competitive marketplace to the greatest extent possible.

257
258 **Vision**

259
260 Facility Association’s vision is to be recognized and relied upon as a highly
261 efficient and effective administrator of automobile insurance residual markets,
262 whose objective opinion on residual markets and related issues is respected and
263 sought by stakeholders.

264
265 Facility Association has a full-time staff of thirty-seven people and fulfills its mandate via a
266 network of outsourcing and professional services arrangements.

267
268 In Alberta, Facility Association administers the Alberta Risk Sharing Pool (RSP) (in reality, two
269 Pools – one for Grid risks and the other for Non-Grid risks) for private passenger vehicles. It also
270 administers the traditional Residual Market for non-private passenger vehicles and a very small
271 “Residual Market Segment” (with very tightly defined risk criteria) for private passenger vehicles.

272
273 Because all licensed automobile insurers in Alberta must be members of Facility Association, and
274 because they must participate in the residual market mechanisms administered by Facility
275 Association according to specified sharing formulas, their individual financial results are subject to
276 greater volatility and uncertainty than would otherwise be the case. Participation in the Residual
277 Market also imposes additional costs on Facility Association member companies for such

278 expenses as premium taxes and health levies on their respective shares of residual market
279 premiums and the cost of the capital that members must maintain to support residual market
280 premiums.

281

282 **THE RESIDUAL MARKETS - AUTHORIZATION**

283

284 In Alberta, Facility Association administers the RSPs and Residual Market Segment as authorized
285 by its Plan of Operation (Plan), which is approved by member companies and the Superintendent
286 of Insurance. (The Plan may be viewed and downloaded at www.facilityassociation.com.) All
287 companies licensed to sell automobile insurance in Alberta are required to abide by the provisions
288 of the Plan.

289

290 For risks ceded to the Alberta RSPs, the Plan requires Facility Association to maintain and report
291 separate financial results for those risks that are subject to the premium grid and those that are not.
292 This creates the need for two RSPs, commonly referred to as the Grid RSP and the Non-Grid RSP.
293 Both are for private passenger automobiles only. All financial results of the Alberta RSPs and the
294 traditional Residual Market are assigned to member companies based on their participation in the
295 Alberta automobile insurance market. That is, they are not spread across the other jurisdictions
296 Facility Association serves.

297

298 **THE RISK SHARING POOLS - OPERATION**

299

300 Essentially, a RSP is a residual market that acts as an industry-wide reinsurance mechanism that is
301 largely invisible to consumers and intermediaries. A consumer buys insurance in the normal way,
302 and the application is forwarded to a company underwriter. The underwriter assesses the risk and
303 then decides whether to keep it on the company's own books or to transfer the risk to the RSP
304 (subject to the operational rules and eligibility guidelines of the RSP).

305

306 Companies receive an expense allowance from the RSPs to cover costs such as those incurred for
307 policy acquisition, policy issuance, policy administration and claims servicing. That expense
308 allowance is set annually by the Facility Association Board of Directors in consultation with the
309 Alberta Superintendent of Insurance. For both RSPs, companies are required to submit 100% of
310 all premiums for all coverages on a policy and are eligible for 100% reimbursement of eligible
311 claims and related expenses. Financial results (top **and** bottom lines) of the Pools are shared
312 among companies based on the proportion of a company's private passenger automobile exposures
313 not ceded to a RSP divided by the number of industry private passenger automobile exposures not
314 ceded to a RSP. As Facility Association is simply an administrative mechanism, all companies

315 receive a monthly report reflecting the operations of the Pool which provides them with the
316 amounts they are then required to book into their own financial statements.

317

318 The two RSPs differ primarily in the number of risks companies can transfer to each. For the Grid
319 RSP, companies can transfer eligible risks (i.e. risks whose premiums are capped by the premium
320 regulation or “Grid”) without limit. This lack of limit is based on the philosophy that companies
321 are required to accept risks for which they have no control over price and, therefore, little or no
322 control over the financial results of that business. In a general way, the size of the Grid RSP will
323 be a function of how companies view the adequacy of the grid premium for a given risk. If the
324 grid premium is above, or approximately the same as, the company’s own risk-based premium the
325 company might prefer to keep the risk on their own books. The upper limit to the size of the Grid
326 RSP is, of course, a direct function of how many risks in the province are impacted by the grid.

327

328 For the Non-Grid RSP, companies can transfer up to 4% of written exposures not transferred to the
329 Grid RSP. This Pool is designed to help companies cope with the “take-all-comers” environment
330 in the province.

331

332 In a competitive market, most insurers tend not to target the entire universe of private passenger
333 automobile risks. Insurers generally each have their areas of expertise and a healthy competitive
334 marketplace tends to allow a proper mix of generalist and specialist/niche private passenger
335 automobile writers. Moreover, because it is a practical impossibility to have a perfect price for
336 every risk, most insurers choose to have risk eligibility rules to complement and protect their
337 respective pricing structures. An underwriter faced with a requirement to accept a greater degree
338 of risk than that contemplated by the company’s classification system and rates can transfer that
339 risk to the Non-Grid RSP. The Non-Grid RSP has a relatively low limit to ensure that it does not
340 become used as a marketing tool. That is, without such a limit, companies could deliberately
341 adopt a strategy of underpricing certain risks to attract new customers. Because these risks could
342 then be transferred to the Non-Grid RSP, and because of the way all insurers share in the results of
343 the Pool, this would amount to companies growing their businesses at the expense of their
344 competitors.

345

346 The key point here is that RSPs are designed as mechanisms to promote stability in the
347 marketplace by making it possible for companies to accept risks they believe are not adequately
348 priced. Therefore, the general expectation is that RSPs by their very nature will operate at a
349 financial loss. It is also important to note that because the RSPs also act as a cross-subsidization
350 mechanism across the industry, at any given point in time, companies will have their own, unique,
351 financial results vis-à-vis the Pools.

Information Disclosure Statement

The Automobile Insurance Rate Board (the Board) is mandated to conduct an Annual Review of automobile insurance trends and premiums relating to basic coverage and additional coverage for private passenger vehicles. To enable the Board to do this, it needs to collect or receive information under the authority of sections 9 and 11 of the *Automobile Insurance Premiums Regulation*. The Board is committed to making its rate setting process as open and transparent to the public as possible.

Therefore, this is to notify you that any information (including personal or business information) that is submitted to the Board for consideration in the 2016 Annual Review will be considered made in the context of a public meeting, whether made as a written submission or an oral presentation. This information, including the recording of discussions held at public meeting will be published on the board's web site as authorized by the Minister of Finance under section 816(7)(c) of the Insurance Act.

I acknowledge that I am submitting the attached information to the Board in the context of an open public meeting in the rate setting process and that, subject to section 11 of the Automobile Insurance Premiums Regulation, A.R. 117/2014, I am not required by law or by the Board to provide this information, that I do so on my own account at my own instance. For these reasons, I understand that the attached information will be made public and I am submitting the information to the Board on that basis.

If you have any questions concerning the management or disclosure of Board information, you may contact the Executive Director of the Board at 780-415-1126.



Signature

David J. Simpson
President & CEO

Print Name

Facility Association

Organization

July 22, 2016

Date