# Alberta Automobile Insurance Rate Board

## Annual Review of Automobile Insurance Trends and Premiums

**August 15, 2017**

FACILITY Association

**Submission**

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## INTRODUCTION

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

Appendix 1 provides both a background to the history and operation of the Alberta Risk Sharing Pools, and a brief overview of Facility Association's other operations in the province.

Facility Association's Mission and Vision are:

### 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.

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

In 2016, we saw an increase in written premiums transferred to the Risk Sharing Pools (RSPs) on a combined basis as the total premium volume transferred increased $23.8 million, or 10.6%, from $224.3 million to $248.1 million. The overall increase resulted from premium increases in both the Grid and Non-Grid RSPs. The Grid RSP premium was up $10.2 million or 7.3% and the Non-Grid RSP premium increased $13.7 million or 16.0%. At $248.1 million, written premium transferred to both RSPs is estimated to represent approximately 7.5% of all private passenger[1] automobile insurance premiums written in Alberta in 2016, up from the 7.0% estimated for 2015.

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

**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** |
| 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% |
| 2016 | $248,139,820 | 7.5% | $148,472,066 | 4.5% | $99,667,754 | 3.0% |

On a written exposure count basis (exposure is defined as one car insured for one year), a total of 131,112 exposures were transferred to both RSPs in 2016, up approximately 11,500 (9.6%) from 2015 (it should be noted that 2015 saw the lowest number of exposures transferred to the RSPs in a full calendar year since the introduction of the RSPs in 2004). The exposure count increased in both RSPs in 2016. The Grid RSP was up by approximately 1,500 exposures or 2.5% and the Non-Grid RSP was up approximately 9,900 exposures or 17.1%. We note that information from Insurance Bureau of Canada indicates that the total percentage of the market (on an earned exposure basis) subject to the premium grid has been declining since 2012. It is also important to remember that not all risks subject to the premium grid are transferred to the Grid RSP.

Please see Table 2 at the top of the next page for a summary of Risk Sharing Pool written exposure and estimated market share data for the last five years and projections for 2017 and 2018.

[1] Private passenger here refers to individually-rated private passenger including farmers, as per data available from GISA as at July 21, 2017.

**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** |
| 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)

The projections for 2017 and 2018 are taken from the "Preliminary Outlook" for the RSPs for calendar 2018 that we published to our website on July 6th of this year. The Outlook is based both on information we receive from larger RSP using companies and our own internal calculations. In that Outlook, we are forecasting that written exposures transferred to both Alberta RSPs in 2017 and 2018 will be relatively stable. We expect to publish the "Final Outlook" to our website in September.

More details on these projections and the estimate of the financial results of the RSPs for 2017 and 2018 may be found in the Outlook bulletin (bulletin F17-053) in the publications area of our website (www.facilityassociation.com). It is very important to remember that the Outlooks are a forward looking exercise and that the final numbers may differ, perhaps by substantial amounts, from those presented in Table 2.

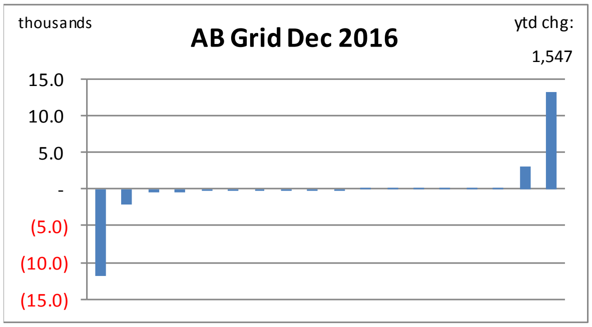
The Superintendent's Office began a review of the Automobile Insurance Premiums Regulation in 2016 and we are hopeful that one outcome of that review will be a premium grid (assuming that the grid will remain) that is more tightly focused on specific groups of drivers. Because risks subject to the premium grid are eligible for transfer to the Grid RSP, reducing the number of risks subject to the premium grid would lead to a reduction in the maximum number of risks eligible to be transferred to the Grid RSP, an outcome that is in alignment with our mission.

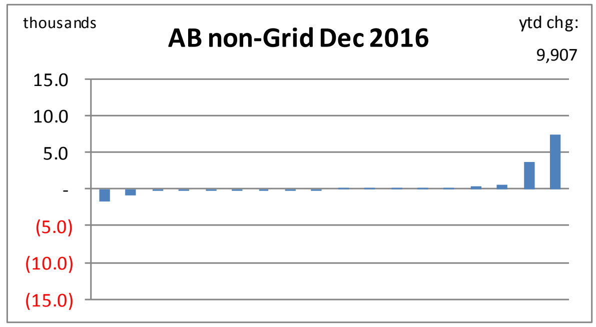
While there was an overall increase in transfers to both RSPs in 2016, the changes in usage at the Member Company Group level is more nuanced, as indicated in the charts below. Specifically, while there was an overall increase for the Grid RSP, almost one-half (10 of 18) active Member

Company Groups decreased their transfers. Moreover, while there was also an overall increase for the Non-Grid RSP, one-half (9 of 18) decreased their transfers 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 |

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 90% 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.

**Table 3**
**Alberta Private Passenger[2] Residual Market Segment**
**Market Share (Written Exposure Basis)**

| Year | W. Premium | Market Share | W. Exposure | Market Share |
|---|---|---|---|---|
| 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% |
| 2016 | $7,799,861 | 0.2% | 2,034 | 0.1% |

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 North Carolina, the Northwest Territories and Nunavut as shown in Table 4.

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

**Table 4**
**Top Ten Private Passenger Residual Market Jurisdictions in North America**

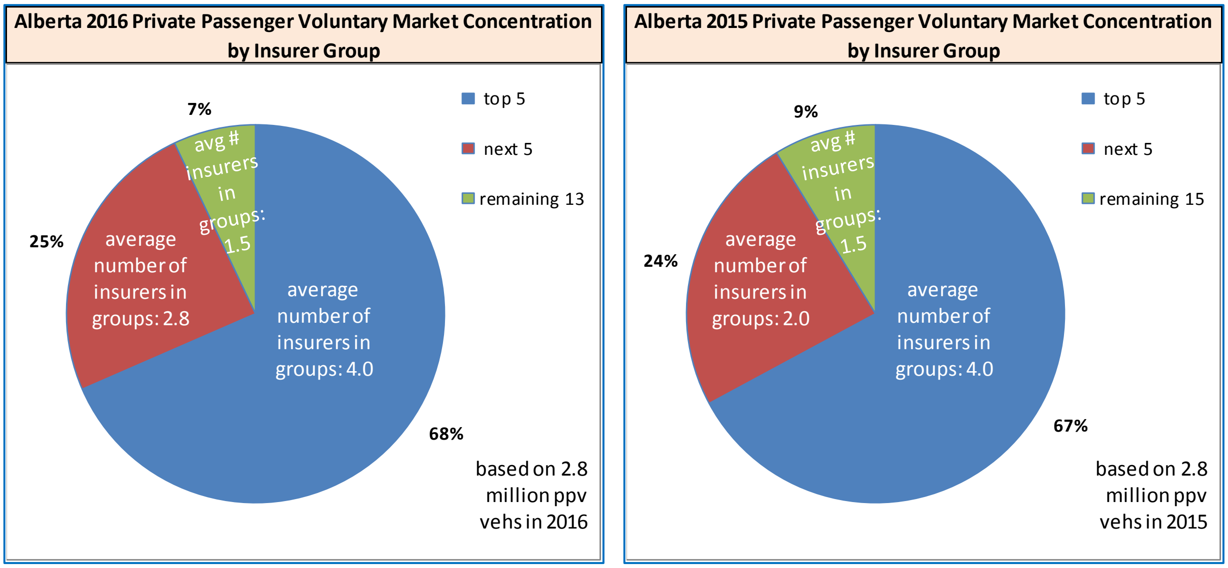
| Jurisdiction | Market Share (vehicles)[1] |
|---|---|
| North Carolina | 30.1% |
| Northwest Territories | 11.7% |
| Nunavut | 9.8% |
| Alberta (RSP & FARM) | 4.9% |
| Newfoundland & Labrador | 3.2% |
| New Brunswick (RSP & FARM) | 3.1% |
| Nova Scotia (RSP & FARM) | 2.9% |
| Ontario (RSP & FARM) | 2.4% |
| Rhode Island | 1.9% |
| Massachusetts | 1.4% |

[1] Sources: Canadian data is as at December 31, 2016; USA data is for 2014 as per Insurance Information Institute (http://www.iii.org/fact-statistic/auto-insurance)

The size of the Risk Sharing Pools can be influenced by a number of factors. Insurers tend to keep on their own books risks they believe to be adequately priced (logically, insurers have no desire to share risks they believe to be profitable with other participants in the market), and transfer to the Risk Sharing Pools (subject to eligibility rules) risks they believe to be inadequately priced.

It is worthwhile to note that when we talk about "insurers", "industry" and "member companies" in the context of private passenger vehicle insurance in Alberta, we are talking about a relatively small number of companies. For 2016, the top five companies (at the group level) represent approximately 68% of the insured private passenger exposures in Alberta, while the top 10 represent 93% (up 2% from a year ago), as shown in Figure 1 at the top of the next page. The presence of several relatively large insurers in the province means that the decisions of one of them on what they will or will not transfer to an RSP can make a significant difference both in the volumes <u>and</u> in the financial results of that RSP.

Figure 1: Market Concentration – 2016[3] vs 2015




In general, there is a correlation between residual market size and the degree of price competition permitted in a given jurisdiction. In the United States, rate regulation is under the authority of individual states similar to the provincial authority that exists in Canada. In the last decade or more there has been an increased trend in the U.S. to allow the competitive forces of the marketplace to regulate prices. Interestingly, for 2014 (the most recent year for which data is available), 39 states of the 49 states reporting data had less than 500 private passenger cars insured through residual market mechanisms, and 45 of 49 states reporting data had less than 1% of private passenger cars insured through residual market mechanisms (Texas does not report data).

In that past, we have said that it is our view that the move away from the "one size fits all" nature of the previous industry-wide rate adjustment process to a "File and Approve" system which reviews rates on a company-by-company basis would have a beneficial effect on residual market volumes due to the potential for increased price competition. That remains our view, despite the fact that we are not currently projecting decreases in RSP volumes, and we continue to believe (based on the available evidence) that pricing flexibility combined with product cost stability will be correlated with lower residual market volumes over time.

We also continue to believe that moving even further beyond a "File and Approve" system to one of open competition under the price ceiling provided by the premium grid regulation at some point

[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.*

in the future would provide an additional opportunity to reduce the number of cars insured through the residual market mechanisms.

## FINANCIAL PERFORMANCE

Table 5 below summarizes the financial performance of the Risk Sharing Pools since inception. The data in Table 5 is taken directly from our audited financial statements.

**Table 5**
**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)** |

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

The industry loss ratios shown in Table 6 are Facility Association's internal estimates. Historically, we've provided these loss ratios on an "indemnity only" basis, but this year we have included a loading for allocated and unallocated loss adjustment expenses (ALAE & ULAE) as per last year's request from the AIRB, to allow easier comparisons with other sources of Loss Ratios. Note, however, we did not load for Heath Levy costs (as some other sources of LR do). From our perspective, the values in Table 6 are then for illustrative purposes only.

**Table 6**
**Alberta Risk Sharing Pools and Industry Private Passenger**
**Undiscounted Estimated Ultimate Loss Ratios (including loading for ALAE & ULAE)**

| **Valuation Period** | **Accident Year** | | | | | |
|---|---|---|---|---|---|---|
| **Grid RSP** | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| 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** | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| 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** | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| 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%** |

<u>Loss ratios include loadings for ALAE & ULAE this submission, unlike prior submissions:</u>

FA focuses on indemnity only for industry, and indemnity plus allowed claims expenses for the RSPs, and all valuations are completed on this basis. However, at the request of the AIRB (to allow easier comparisons with other ultimate LR estimates), we have loaded our usual valuation estimates for ALAE & ULAE. Details related to the methodology for estimating the loading factors are available upon request. As this is the first year this loading process has been introduced, Table 6 results in this submission with Table 6 values of previous submissions are not directly comparable.

Of course, the impact of the financial results of the RSPs on any one company may differ from the impact of the RSPs on the industry in total, as the impact of any one individual company depends not only on their transfers to the RSPs, but also on their market share (which dictates their share of the result of the RSPs).

## FINANCIAL IMPACT ON THE INDUSTRY

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

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

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

- Competitive enterprises need to generate a competitive level of return. To the extent that companies may not be generating a competitive level of return on approximately 7.5% of revenue (the current market share of the Alberta RSPs), that return must be generated from those paying the remaining 92.5% of premium in the marketplace.

- Taken together, the Risk Sharing Pools represent a large volume of premium likely to behave in a more volatile way than of most individual companies. For example, per Table 6, the Grid RSP loss ratio jumped from 83.9 to 92.4 from 2013 to 2014, and the Non-Grid

RSP loss ratio jumped from 110.0 to 121.9 in the same period. Although this volatility impacts all companies in a similar way, smaller companies with limited financial resources very probably find those impacts more difficult to absorb. As well, the presence of such large RSPs with their inherent volatility may act as a barrier to entry to insurers who would otherwise seek the opportunity to serve Alberta consumers.

## CONCLUSION

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

Simply stated, maximizing insurance availability for consumers can be achieved in an environment where both the costs associated with the insurance product are stable and where there is a significant degree of pricing flexibility. In a similar vein, we continue to encourage, as we have in previous years, that steps be taken to ensure the protection afforded by the premium grid remains as tightly focused as possible on the group of consumers it is intended to protect and that insurers be allowed to charge adequate rates for risks not targeted by the grid. We are pleased to note the ongoing review of the Automobile Insurance Premiums Regulation and we hope that an outcome of that process is a more tightly-focused premium grid (assuming that the premium grid in some form will remain). As long as the premium grid remains in force, we believe allowing open price competition below the maximum premium set by the grid will pave the way for the smallest possible residual market volumes in the current regulatory framework.

## APPENDIX I: RISK SHARING POOLS BACKGROUND, AUTHORIZATION & OPERATION

### BACKGROUND

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

**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 has a full-time staff of thirty-seven people and fulfills its mandate via a network of outsourcing and professional services arrangements.

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

Because all licensed automobile insurers in Alberta must be members of Facility Association, and because they must participate in the residual market mechanisms administered by Facility Association according to specified sharing formulas, their individual financial results are subject to greater volatility and uncertainty than would otherwise be the case. Participation in the Residual

Market also imposes additional costs on Facility Association member companies for such expenses as premium taxes and health levies on their respective shares of residual market premiums and the cost of the capital that members must maintain to support residual market premiums.

## THE RESIDUAL MARKETS - AUTHORIZATION

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

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

## THE RISK SHARING POOLS - OPERATION

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

Companies receive an expense allowance from the RSPs to cover costs such as those incurred for policy acquisition, policy issuance, policy administration and claims servicing. That expense allowance is set annually by the Facility Association Board of Directors in consultation with the Alberta Superintendent of Insurance. For both RSPs, companies are required to submit 100% of all premiums for all coverages on a policy and are eligible for 100% reimbursement of eligible claims and related expenses. Financial balances (e.g. top **and** bottom lines) of the Pools are shared among companies based on the proportion of a company's private passenger automobile exposures not ceded to a RSP divided by the number of industry private passenger automobile exposures not ceded to a RSP. As Facility Association is simply an administrative mechanism, all companies receive a monthly report reflecting the operations of the Pool which provides them with the amounts they are then required to book into their own financial statements.

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

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

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

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