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July 24, 2018

Ms. Laurie Balfour
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 Ms. Balfour:

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. Please note we will also be submitting an additional submission which addresses the draft Oliver Wyman ("OW") reports entitled "Annual Review of Industry Experience – Preliminary Report as of December 31, 2017 Private Passenger Vehicles" and "Annual Review of Industry Experience – Preliminary Report as of December 31, 2017 Commercial Vehicles", both dated June 22, 2018.

Delivering our presentation at the Open meeting of August 14th 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 or HDMI cable connectivity) and screen are all that we need. We will email the presentation to you no later than August 3rd.

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

Yours truly,

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

c.c.: George Hardy, Facility Association Board Chair

Alberta Automobile Insurance Rate Board

Annual Review of Automobile Insurance Trends and Premiums

August 14, 2018

FACILITY Association

Submission

July 24, 2018

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

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 (FA) 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.

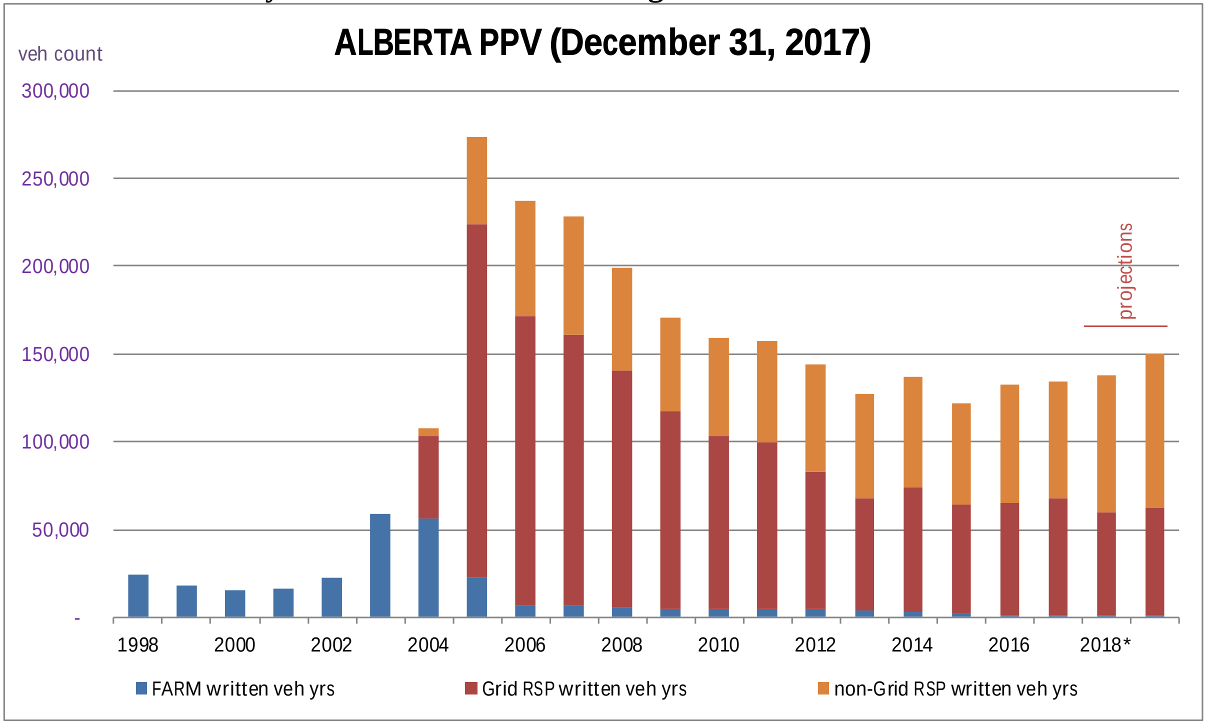
Facility Association's Mission and Vision are:

> **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.

The chart at the top of the next page provides historical and projected Alberta individually-rated private passenger vehicles counts for the FA residual market mechanisms collectively by year to provide a longer term perspective, although the focus of our discussion is in relation to the period since 2015, being the most recent low volume year at 122,201 vehicles (market share 4.5%), down from the high level that was reached in 2005 (count of 273,170 and market share of 14.0%).

Alberta individually-rated vehicle counts through the FA residual market mechanisms



The Facility Association Residual Market (FARM) is a small volume, tightly defined pooling mechanism for higher-risk cars and drivers. The annual premiums for approximately 90% of individually-rated private passenger exposures insured through the FARM are capped by the insurance premium regulation grid. The volume vehicles insured through this mechanism dropped after the 2004 reforms, and, as indicated in Table 1 at the top of the next page, counts have decreased to approximately 1,530 in 2017 (market share 0.1%), a level we are projecting to be maintained for 2018 and 2019.

Table 1
Alberta Private Passenger Residual Market Segment ("FARM") – Market Share

Year	Written Premium Basis		Exposure Basis	
	W. Prem ($000s)	Mkt Share	W. Count	Mkt Share
2013	14,766	0.5%	4,088	0.2%
2014	13,764	0.4%	3,445	0.1%
2015	11,410	0.4%	2,543	0.1%
2016	7,587	0.2%	1,644	0.1%
2017	7,179	0.2%	1,532	0.1%
2018	7,740		1,538	
2019	7,833		1,538	

2018 and 2019 projections per the 2019 Preliminary FARM Outlook posted June 15, 2018 to the FA website (www.facilityassociation.com)

Table 2 below provides written premium volumes for the two Alberta Risk Sharing Pools, the Grid Risk Sharing Pool (Grid RSP) and the Non-Grid Risk Sharing Pool (Non-Grid RSP). 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.

Table 2
Alberta Risk Sharing Pools – Market Share (Written Premium Basis)

Year	Total		Grid RSP		Non-Grid RSP	
	W. Prem ($000s)	Mkt Share	W. Prem ($000s)	Mkt Share	W. Prem ($000s)	Mkt Share
2013	217,734	7.7%	135,874	4.8%	81,860	2.9%
2014	238,352	7.8%	155,765	5.1%	82,587	2.7%
2015	224,297	7.0%	138,309	4.3%	85,988	2.7%
2016	248,140	7.5%	148,472	4.5%	99,668	3.0%
2017	258,972	7.5%	159,965	4.6%	99,007	2.9%
2018	273,811		152,033		121,778	
2019	300,728		159,083		141,645	

2018 and 2019 projections per the 2019 Preliminary RPS Outlook
posted July 17, 2018 to the FA website (www.facilityassociation.com)

Counts provide a better measure of volumes, and Table 3 below shows that while the Grid RSP is projected to see count declines in 2018 and 2019, counts in the non-Grid RSP are projected to increase.

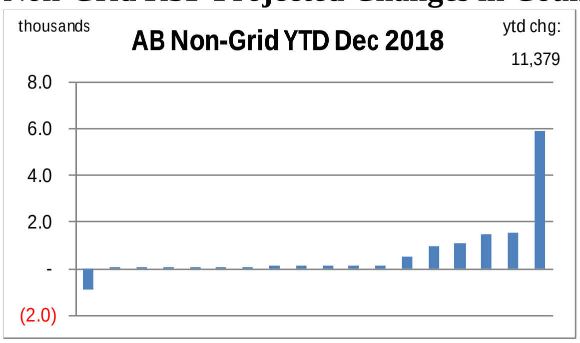
Table 3
Alberta Risk Sharing Pools – Market Share (Written Exposures or "Count" Basis)

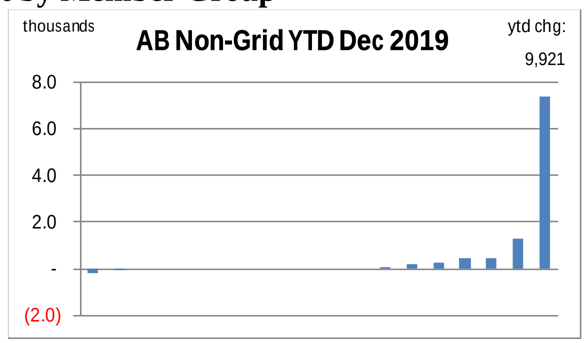
Year	Total		Grid RSP		Non-Grid RSP	
	W. Count	Mkt Share	W. Count	Mkt Share	W. Count	Mkt Share
2013	123,561	4.8%	63,979	2.5%	59,582	2.3%
2014	133,164	4.9%	70,934	2.6%	62,230	2.3%
2015	119,658	4.3%	61,813	2.2%	57,845	2.1%
2016	131,112	4.7%	63,360	2.3%	67,752	2.4%
2017	132,941	4.8%	66,524	2.4%	66,417	2.4%
2018	136,187		58,392		77,795	
2019	148,357		60,641		87,716	

2018 and 2019 projections per the 2019 Preliminary RPS Outlook
posted July 17, 2018 to the FA website (www.facilityassociation.com)

Further, as indicated in the "growers vs. decliners" charts below (where each bar measures the projected change in count for member groups), 17 of 18 member groups are projected to increase their transfers to the Non-Grid RSP for 2018 (significant users for the RSPs are requested, on a quarterly basis, to provide projected RSP usage by month to the end of the next calendar year – 9 of the 18 member groups provided projections, but these 9 account for over 90% of the projected count for 2018). During periods of relative stability, we generally expect and see equal numbers of growers and decliners, so the significantly bias toward growers suggests market instability.

Non-Grid RSP Projected Changes in Count by Member Group





	# grps	chg
decliners:	1	(921)
no changers:	-	-
growers:	17	12,299

	# grps	chg
decliners:	3	(193)
no changers:	8	-
growers:	7	10,114

There is a limit to the total number of risks that can be transferred to the Non-Grid RSP, as each member-group is limited to a 4% transfer amount relative to their previous non-Grid private passenger vehicles insured in the prior calendar year – we estimate that the maximum that could be transferred in 2018 at approximately 106,000 vehicles, so that the 78,000 projected transfers represents about 74% of the maximum. That said, 3 member groups are projected to be at over 95% of their limit for 2018, and another 3 between 80% and 95% of their 2018 limits.

At its June 2018 meeting, the Facility Association Board of Directors (FA Board) took note of the increased projected transfers to the Alberta Non-Grid RSP for the remainder of 2018. The FA Board devoted a significant amount of time at the June meeting to dialogue on whether or not to increase the transfer limit of the Non-Grid RSP. Under the Plan of Operation, the FA Board has the authority to both increase the transfer limit of the Non-Grid RSP in its entirety or to increase the transfer limit for an individual member company.

While acknowledging that current cost pressures and pricing limitations could manifest themselves as availability issues for consumers, the FA Board has decided not to increase the transfer limit for the Non-Grid RSP at this time. The FA Board is of the view that such a measure would only serve to “mask” the underlying cost issues. The FA Board is also of the view that it is in the best interests of Alberta automobile insurance consumers that those issues be dealt with in a meaningful way. The FA Board will review requests for increased transfer limits from individual companies through the prescribed process. This position was communicated to the Superintendent of Insurance, and the Superintendent responded, stating, in part:

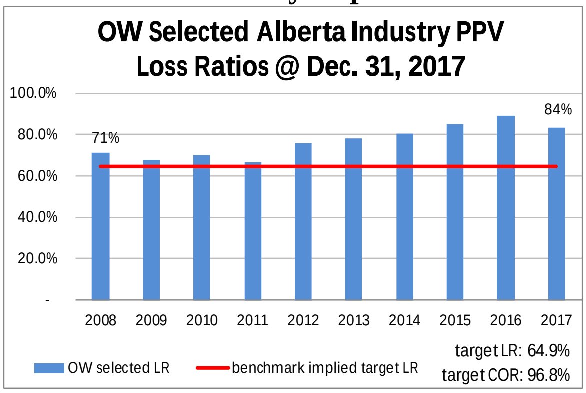
> "*As you know, one of Government's top priorities is ensuring the cost of living in Alberta remains affordable. In the coming weeks, we will be issuing a Request for Proposals seeking an independent contractor to work with Treasury Board and Finance to conduct a detailed study on claims and costs. A holistic review of the insurance industry will help ensure that Alberta's insurance system remains sustainable, affordable, accessible and fair.*"

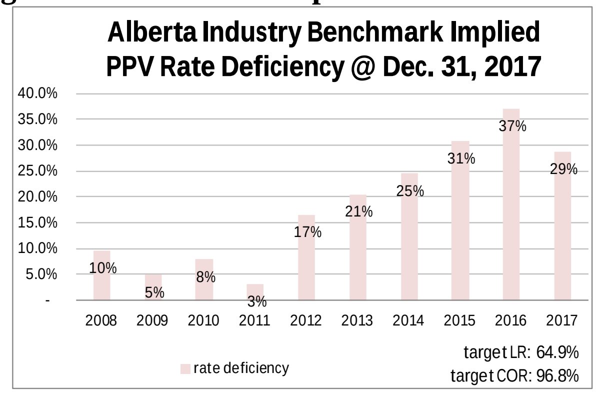
(We note that the aforementioned Request for Proposal was released via Notice 06-2018 dated July 19, 2018.)

The increased volume in the Non-Grid RSP is a concern for FA with respect to the potential impact on availability for consumers in the voluntary market. While FA does not ask member-groups to provide a rationale for their projections, there are some aspects of current market conditions that may be contributing factors. In particular, the interplay of current rate level adequacy, claims cost trends, and the current rate change cap of 5%, and the continued uncertainty / predictability challenges related to bodily injury, notwithstanding the government's regulatory clarification to the minor injury definition introduced in May of this year, and the Request for Proposal for a detailed study on claims and costs per Notice 06-2018.

First, using the (all coverages) estimates provided in the preliminary Oliver Wyman Private Passenger Report and the associated preliminary proposed benchmark assumptions, we have estimated the associated all coverages ultimate accident year loss ratios (indemnity plus claims expenses), and compared those ultimates against a target loss ratio level consistent with the expense, discount rate, and profit provision benchmark assumptions as proposed in the OW PPV Report. Comparing the target to the historical loss ratios provides some context for the *historical* rate adequacy relative to the *current* proposed benchmark assumptions. These results are summarized below, indicating significant rate deficiency (again, against the *current* proposed benchmark assumptions).

OW PPV Preliminary Report – All Coverages Loss Ratios and implied rate deficiencies





The above would suggest that an industry-wide significant rate deficiency exists (potentially in excess of 20%) – a deficiency that may have existed over the course of at least a full underwriting cycle (typically 7-10 years). In addition, weighting the Report's selected loss cost trends with coverage claims amounts suggests an overall annual increase in loss costs of approximately 5%, implying that the current imposed rate change cap of 5% is sufficient only to keep up with claims trends, without allowing the industry to deal with the apparent rate deficiency. This may be leading to individual insurer decisions that may ultimately adversely affect availability in the voluntary market.

Discussions over the last several years has correctly focused on the rapid deterioration in bodily injury results since 2011, which has created significant difficulty in accurately predicting claims costs. Predictability may ultimately be improved as a result of the minor injury clarification regulation released in May of this year, but it will take some time before the clarification is tested, and its impact measured with any degree of confidence. Given the potential current level of rate deficiency, it may be understandable for insurers to take a conservative assessment in the immediate term.

FA has released Preliminary Outlooks for calendar year 2019 separately for the FARM and the RSPs, and both are available on 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 both the Outlooks and in earlier tables presented hear.

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 at the top of the next page.

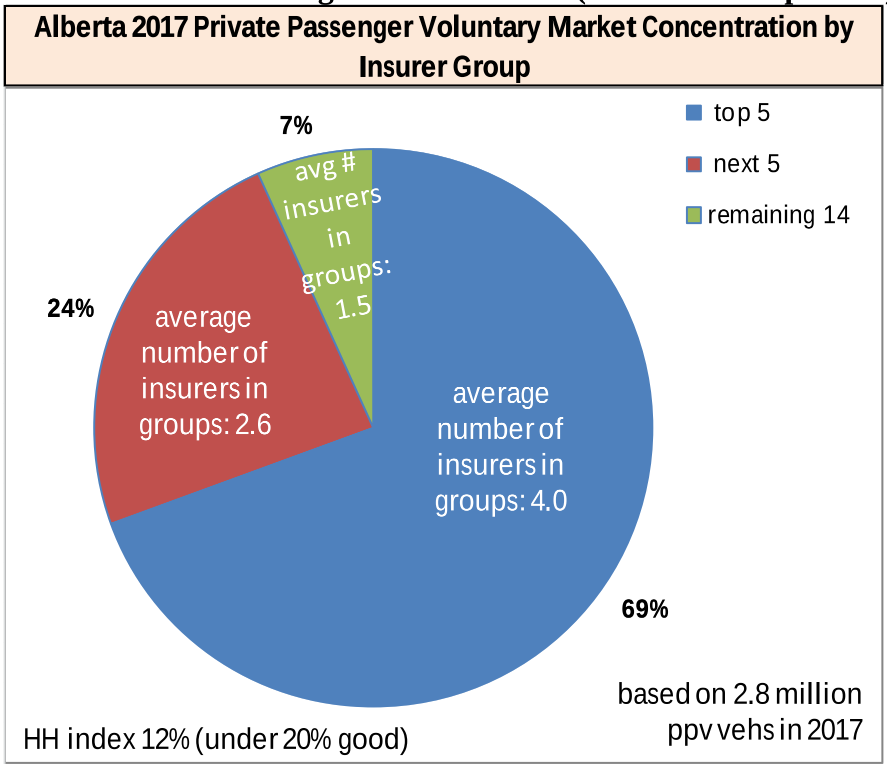
Table 4
Top Ten Private Passenger Residual Market Jurisdictions in North America

Jurisdiction	Market Share (vehicles)
North Carolina	30.3%
Northwest Territories	10.5%
Nunavut	5.6%
Alberta (RSP & FARM)	**4.9%**
Nova Scotia (RSP & FARM)	3.7%
Newfoundland & Labrador	3.3%
New Brunswick (RSP & FARM)	3.2%
Ontario (RSP & FARM)	2.6%
Rhode Island	2.1%
Prince Edward Island	1.4%

Sources: Canadian data is as at December 31, 2017
USA data is for 2015 as per Insurance Information Institute
(http://www.iii.org/fact-statistic/auto-insurance)

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 2017, the top five companies (at the group level) represent approximately 69% of the insured private passenger exposures in Alberta, while the top 10 represent 93% as shown in the pie chart at the top of the next page. While the associated "Herfindahl-Hirschman" index measurement at 12% does not directly raise competitiveness concerns (an index value of 20% or higher is usually indicative of a lack of competition in a market), 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.

Alberta Private Passenger Concentration (Member Group Level) 2017



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 2015 (the most recent year for which data is available), 40 states of the 50 states (including D.C.) reporting data had less than 500 private passenger cars insured through residual market mechanisms, and 46 of 50 states (including D.C.) reporting data had less than 1% of private passenger cars insured through residual market mechanisms (Texas does not report data).

In the 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 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, and we've included our current projections for fiscal years 2018 and 2019 (these projected results are NOT included in the total in the table).

Table 5
Alberta Risk Sharing Pools – Excess / (Deficiency) of Revenue over Expenses

	Total	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)
2017	(110,439)	(62,015)	(48,424)
2018	(97,584)	(48,592)	(48,992)
2019	(103,610)	(38,605)	(65,005)
Total (excluding 2018, 2019)	(409,119)	(69,968)	(339,151)

Source: FA audited Financial Statements
Projections consistent with 2019 Preliminary Outlook assumptions

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 are on an "all coverages basis", and include indemnity, allowed claims expenses, and an additional loading for other claims expense costs to put the rations to allow easier comparisons with other sources of Loss Ratios. The industry loss ratios shown in Table 6 are Facility Association's internal estimates for indemnity, and include a loading for allocated and unallocated loss adjustment expenses (ALAE & ULAE). 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	2012	2013	2014	2015	2016	2017
as at Oct 31, 2013	74.0%	71.2%				
as at Oct 31, 2014	79.6%	79.4%	76.7%			
as at Oct 31, 2015	77.5%	80.0%	85.3%	81.6%		
as at Oct 31, 2016	79.6%	83.9%	92.4%	96.7%	88.5%	
as at Oct 31, 2017	**78.9%**	**83.2%**	**92.3%**	**101.1%**	**103.3%**	**96.0%**
Non-Grid RSP	2012	2013	2014	2015	2016	2017
as at Oct 31, 2013	109.0%	104.7%				
as at Oct 31, 2014	111.0%	110.7%	112.6%			
as at Oct 31, 2015	108.2%	111.3%	117.4%	109.9%		
as at Oct 31, 2016	109.9%	110.0%	121.9%	110.1%	120.2%	
as at Oct 31, 2017	**108.4%**	**108.8%**	**121.8%**	**113.2%**	**128.7%**	**121.1%**
Industry	2012	2013	2014	2015	2016	2017
as at Dec. 31, 2013	71.7%	71.9%				
as at Dec. 31, 2014	75.5%	76.1%	77.1%			
as at Dec. 31, 2015	75.0%	76.1%	77.3%	76.6%		
as at Dec. 31, 2016	75.4%	77.5%	79.5%	80.8%	80.1%	
as at Dec. 31, 2017	**75.7%**	**78.1%**	**80.8%**	**84.2%**	**87.5%**	**83.5%**

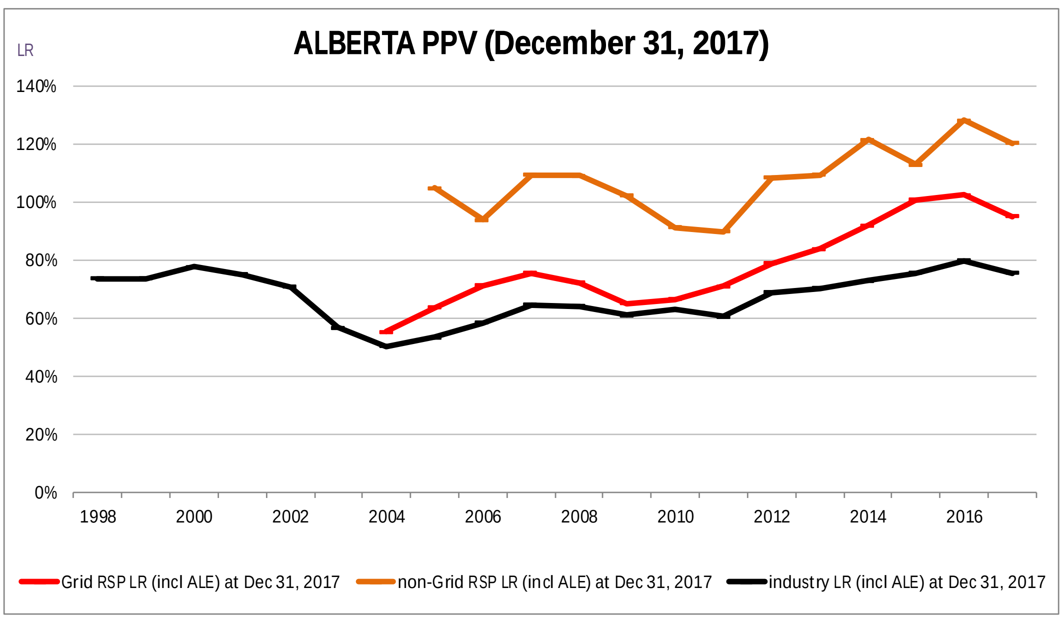
Of course, the impact of the financial results of the RSPs on any one company may differ from the impact of the RSPs on the industry in total, as the impact of any one individual company depends not only on their transfers to the RSPs, but also on their market share (which dictates their share of the 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 (see all-coverages loss ratio chart below, which includes loadings to include all claims expenses). In the event of 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 83.2% to 92.3% from accident year 2013 to 2014, and the Non-Grid RSP loss ratio jumped from 108.8% to 121.8% 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 voluntary market 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. 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-nine 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.

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Information Disclosure Statement

The Automobile Insurance Rate Board (AIRB) is mandated to conduct an Annual Review of automobile insurance trends and premiums relating to basic coverage and additional coverage for private passenger vehicles. In order for AIRB to complete its review, it needs to collect or receive information under the authority of sections 9 and 11 of the *Automobile Insurance Premiums Regulation*.

The AIRB 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 AIRB for consideration in the 2018 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 the public meeting will be published on the AIRB'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 AIRB 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 AIRB 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 AIRB on that basis.

	July 24 2018
Signature	Date

David J. Simpson
Print Name

Facility Association
Organization

If you have any questions concerning the management or disclosure of information related to the AIRB, you may contact the Executive Director by phone at 780-415-1126 or by email at Laurie.Balfour@gov.ab.ca.