FACILITY Association

777 Bay Street, Suite 2400
P.O. Box 121
Toronto, Ontario
M5G 2C8

T: 416 863 1750
F: 416 868 0894
E: mail@facilityassociation.com

July 25, 2019

Ms. Laurie Balfour
Executive Director
Alberta Automobile Insurance Rate Board
#2440 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3N6

V*ia 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 have also submitted an additional submission which addresses the draft Oliver Wyman ("OW") reports entitled "Annual Review of Industry Experience – Preliminary Report as of December 31, 2018 Private Passenger Vehicles" and "Annual Review of Industry Experience – Preliminary Report as of December 31, 2018 Commercial Vehicles", both dated June 28, 2019.

Delivering our presentation at the Open meeting of August 15th on behalf of Facility Association will be:

Saskia Matheson, 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 on or before August 2nd.

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

Yours truly,

Saskia Matheson
President & CEO

Encl.

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

Alberta Automobile Insurance Rate Board

Annual Review of Automobile Insurance Loss Experience

August 15, 2019

FACILITY Association

Submission

July 25, 2019

Saskia Matheson
President & CEO

INTRODUCTION

We are pleased to make this submission to the Alberta Automobile Insurance Rate Board (AIRB), continuing in the tradition of the Facility Association to provide information and what insight we can on issues related to automobile insurance, market stability and availability. Our submission consists of 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

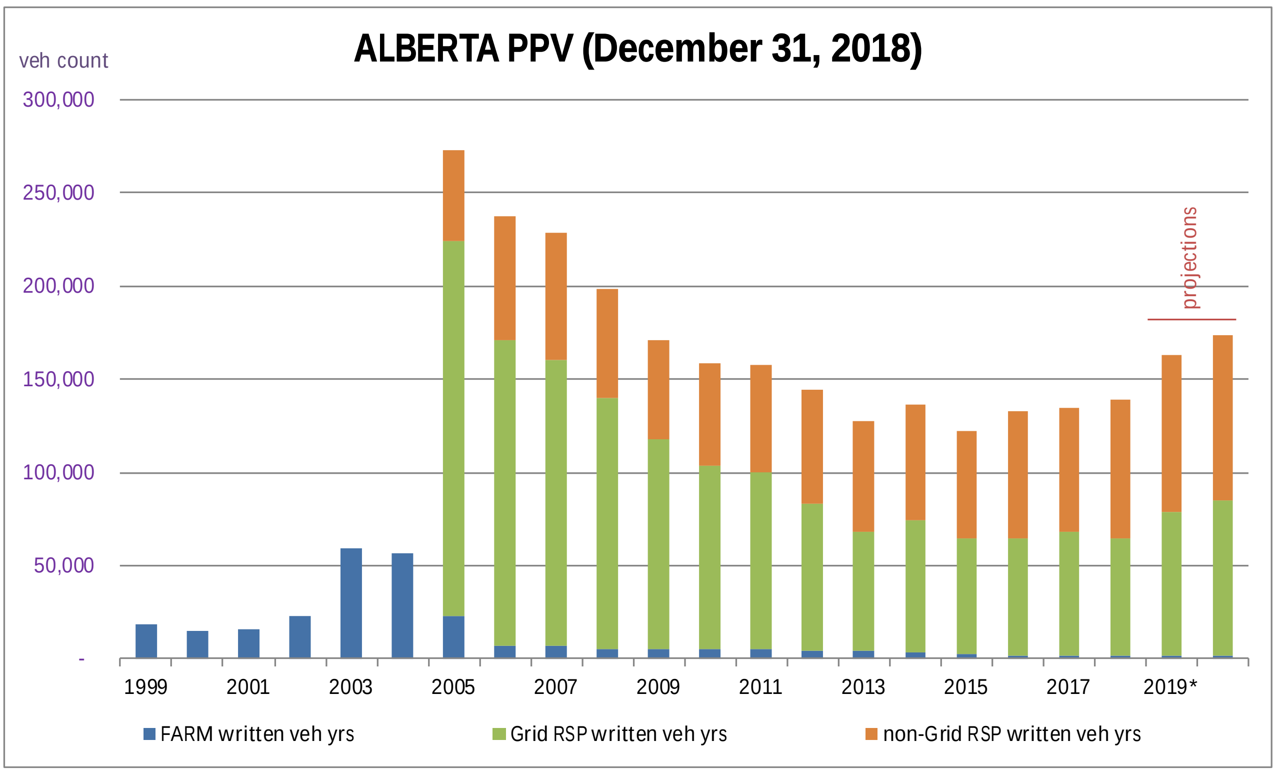
Facility Association's vision is to be recognized and relied upon as a highly efficient and effective administrator of automobile insurance residual markets, whose objective opinion on residual markets and related issues is respected and sought by stakeholders.

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. There are two reasons for this: First, a small residual market is ongoing evidence that the market is competitive, and that consumers are successfully finding coverage in a market they choose. Second, we believe those consumers are best served by companies competing directly for their business without the need to calculate the impact 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. We provide a 20 year perspective to show the variability over time. It is sometimes tempting to believe that current conditions are immutable, but the longer perspective shows the market can change.

FARM volumes are of course restricted for PPV's by the eligibility criteria, and so to provide a litmus of the general status of market availability, we must consider the residual market mechanisms together. In total, both the absolute counts and market share bottomed-out in 2015 (market share of 4.4% of private passenger vehicles), moving back up to 4.9% in 2018. So far in 2019, FARM PPV counts are up 19%, Grid RSP counts are up 28%, and non-Grid counts are up 1%. In total, we are projecting 17% growth in 2019 and a further 6% growth in 2020 against industry growth that we expect to be less than 2% annually – we are expecting FA market shares to continue to increase as a result, heading back toward the 6% level last experienced in 2011.

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 decreased to approximately 1,532 in 2017 (market share 0.1%), but rebounded in 2018 to 1,697 (but not enough of a rebound to move the market share). There has been continued growth in the FARM during 2019 (as previously discussed), although we are projecting no growth in 2020.

Table 1
Alberta Private Passenger Residual Market Segment – Market Share

Year	Written Premium Basis		Exposure Basis	
	W. Prem ($000s)	Mkt Share	W. Count	Mkt Share
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	8,134	0.2%	1,697	0.1%
2019	9,287		1,878	
2020	9,287		1,878	

2019 and 2020 projections per the 2020 Preliminary FARM Outlook
posted June 13, 2019 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).

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
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	272,525	7.4%	158,548	4.3%	113,977	3.1%
2019	339,594		200,364		139,230	
2020	373,831		223,247		150,584	

2019 and 2020 projections per the 2020 Preliminary RSP Outlook
posted July 19, 2019 to the FA website (www.facilityassociation.com)

Counts are a better measure of market growth, and counts have continued to climb, reaching 2.7% in 2018, the highest it has been since 2008.

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

	Total		Grid RSP		Non-Grid RSP	
Year	W. Count	Mkt Share	W. Count	Mkt Share	W. Count	Mkt Share
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	137,048	4.8%	62,955	2.2%	74,094	2.6%
2019	161,094		76,753		84,342	
2020	171,354		83,268		88,087	

2019 and 2020 projections per the 2020 Preliminary RSP Outlook
posted July 19, 2019 to the FA website (www.facilityassociation.com)

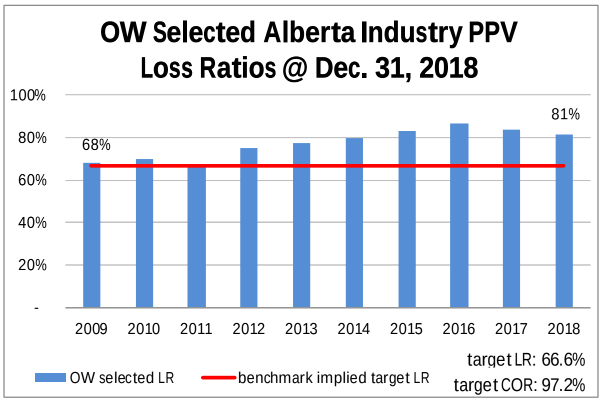
The size of the Risk Sharing Pools can be influenced by a number of factors. While on a general level, insurers tend to keep on their own books risks they believe to be adequately priced, and transfer to the Risk Sharing Pools (subject to eligibility rules) risks they believe to be inadequately priced, the movement of business appears to be subject to a more complex relationship.

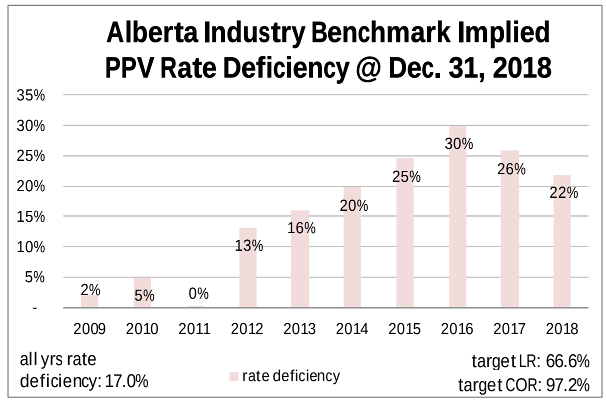
The Risk Share Pool mechanism is designed to support availability in a generally stable market, where temporary disturbances in profitability – such as a trend in a coverage, or a territorial shift in experience -creates a *subset* of the market that is temporarily systemically underpriced. In that circumstance, the Risk Share Pool offers an avenue for companies to insulate themselves from the full impact of writing too much of that subclass while the market adjusts and responds, and market availability is therefore protected.

However, where a substantial component of the industry faces price inadequacy, the Risk Sharing Pools can no longer offer protection to the larger players since too great a portion of the book is underpriced, and transfer will merely result in a sharing back of a similarly poor result based on market share. In such a circumstance, companies may well begin to take other actions to limit their exposure to perceived underpriced business.

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

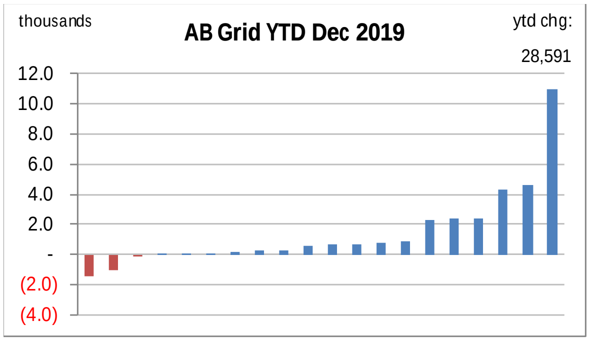


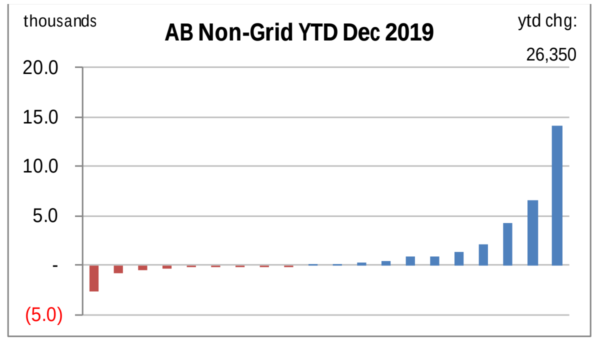


The above would suggest that an industry-wide significant rate deficiency exists – a deficiency that may have existed over the course of at least a full underwriting cycle (typically 7-10 years). The upcoming lifting of the 5% rate cap in August will open the door to companies to take the needed larger increases as their individual results require, but the accumulated deficiency will take longer than a single cycle to lift, this can be expected to lead to individual insurer decisions to protect themselves and their shareholders.

To support our RSP count projections, 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 almost 90% of the projected count for 2019. As indicated in the "growers vs. decliners" charts below and at the top of the next page (where each bar in the charts measures the projected change in count for member groups), the majority of members using the Grid RSP are projecting to transfer more in 2019 than 2018, while it is more evenly split in relation to the projection for the non-Grid RSP.

2019 Projection Grid and non-Grid RSP Projected Changes in Count by Member Group



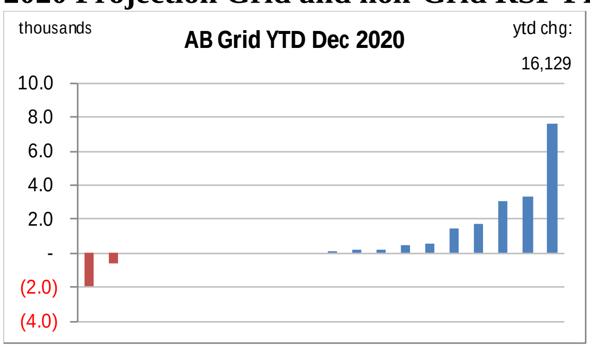


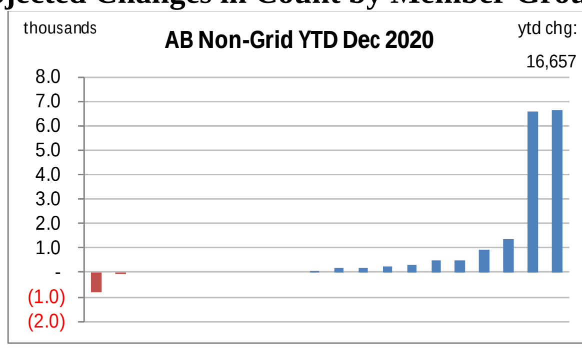
	# grps	chg
decliners:	3	(2,679)
no changers:	-	-
growers:	17	31,270

	# grps	chg
decliners:	9	(4,636)
no changers:	-	-
growers:	11	30,986

For 2020 (see next page), we see more growers than decliners in both RSPs.

2020 Projection Grid and non-Grid RSP Projected Changes in Count by Member Group





	# grps	chg
decliners:	2	(2,536)
no changers:	8	-
growers:	10	18,664

	# grps	chg
decliners:	2	(830)
no changers:	7	-
growers:	11	17,486

As noted previously, 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 2019 at approximately 105,000 vehicles, so that the 84,342 projected transfers represents about 80% of the maximum. That said, 3 member groups are projected to be at over 95% of their limit for 2019, and another 6 between 80% and 95% of their 2019 limits.

Where RSPs are shared on market share, such as in Alberta, then regardless of industry or company results, logic would suggest that members transfer their full limit: Assuming an even distribution of projected loss ratio across the book, it would appear to always make sense for a company to transfer in the worst 4%. So why don't companies do so?

It is possible that some companies are unable to identify a full 4% of risks in their books which are clearly less profitable than the rest. While there is a small group of risks (@2%) that have an expected loss ratio well above the average, Determining the factors that place an additional 2 points of the book out of the "bulk" of the business can prove challenging. There are, for these companies, 2 groups of risks - demonstrably higher loss ratio, and the majority.

As companies improve their risk classification systems, they move from a "block" with all the same expected loss ratio, to a curve. These companies increase their pool usage as the underlying rating system profitability is eroded, and they bump up against the 4 point limit.

We also expect that there is a third group of companies who have an even more sophisticated pricing model, which tightens the rating around the average loss ratio. If the distribution of the loss ratios of sub-segments is more concentrated around the average, as would happen in this case, as the loss ratio of the entire book shifts up, it would not increase RSP use until such time as the loss ratio of the whole book was severely undermined.

When the market faces systemic underpricing, the link between volume change in the RSP's and market availability becomes muddied by other factors, and can no longer be relied upon as a litmus indicator of availability.

At some point in an environment of underpricing, the transfer of risk, especially for larger players in the market, may no longer be advantageous. If the entire industry is underpriced, transfer of the "average" poor expected loss ratio component merely trades one poor loss ratio for another in market sharing of the RSP results.

Facility Association management continues to monitor this situation. The Board of the FA is sensitive to the fact that current cost pressures and pricing limitations could manifest themselves as availability issues for consumers. Nonetheless, the FA Board has decided not to increase the transfer limit for the Non-Grid RSP at this time. In the early days of the RSPs' when there was concern that the pressure on assuring market availability was unequally borne by some companies, a larger limit served to stabilize the market, and support the move to a more equitable sharing of the residual portion of the market. In the current situation, however, the burden of inadequate pricing falls throughout the industry, and the FA Board is of the view that increasing the RSP limit 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 continue to review requests for increased transfer limits from individual companies through the prescribed process.

FA has released Preliminary Outlooks for calendar year 2020 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 and the Northwest Territories as shown in Table 4 below Alberta moved ahead of Nunavut in 2018, which dropped to 5th spot).

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

Jurisdiction	Market Share (vehicles)
North Carolina	30.3%
Northwest Territories	9.3%
Alberta (RSP & FARM)	**4.9%**
Nova Scotia (RSP & FARM)	4.0%
Nunavut	3.8%
New Brunswick (RSP & FARM)	3.4%
Newfoundland & Labrador	3.1%
Ontario (RSP & FARM)	2.4%
Rhode Island	2.1%
Prince Edward Island	1.2%

Sources: Canadian data is as at December 31, 2018
USA data is for 2015 as per Insurance Information Institute
(http://www.iii.org/fact-statistic/auto-insurance)

(Unfortunately, the Insurance Information Institute in the US does not seem to be maintaining residual market shares by state any longer. Information available directly from the North Carolina Reinsurance Facility website indicates a market share still above 25%. The Rhode Island Automobile Insurance Plan website does not appear to be actively maintained.)

In general, as we have noted in previous years, there is a correlation between residual market size and the degree of price competition permitted in a given jurisdiction, and on a directional level this remains the case. However, this correlation assumes that the growth of the residual market is a simple effect of the companies' desire to avoid the burden of the underpriced business. In jurisdictions with a FARM type mechanism with no eligibility restrictions, general price inadequacy in the market will lead to direct growth in the residual market. Where the mechanism is a pool at "street" prices, and/ or the FARM mechanism is restricted, the correlation will be less straightforward. Our concern then moves beyond the risk of a larger residual market. In circumstances where the FARM is restricted by eligibility, if the Risk Share Pool no longer offers respite from the burden of underpriced business due to the ubiquity of that price inadequacy, we will begin to see restriction in the market: cancellation of brokers, closure of offices and potentially even withdrawal of companies.

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, 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, and stabilize the market availability now and into the future for Albertan motorists.

FINANCIAL PERFORMANCE

Table 5 at the top of the next page 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 2019 and 2020 (these projected results are NOT included in the total in the table).

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

Fiscal Year ($000s)	Total	Grid RSP	Non-Grid RSP
2008 and prior	(163,514)	(65,537)	(97,977)
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	(75,432)	(36,792)	(38,640)
2019	(83,930)	(34,457)	(49,473)
2020	(132,331)	(60,166)	(72,165)
Total (excluding 2019, 2020)	(484,551)	(106,760)	(377,791)

Source: FA audited Financial Statements
Projections consistent with 2020 Preliminary RSP 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)

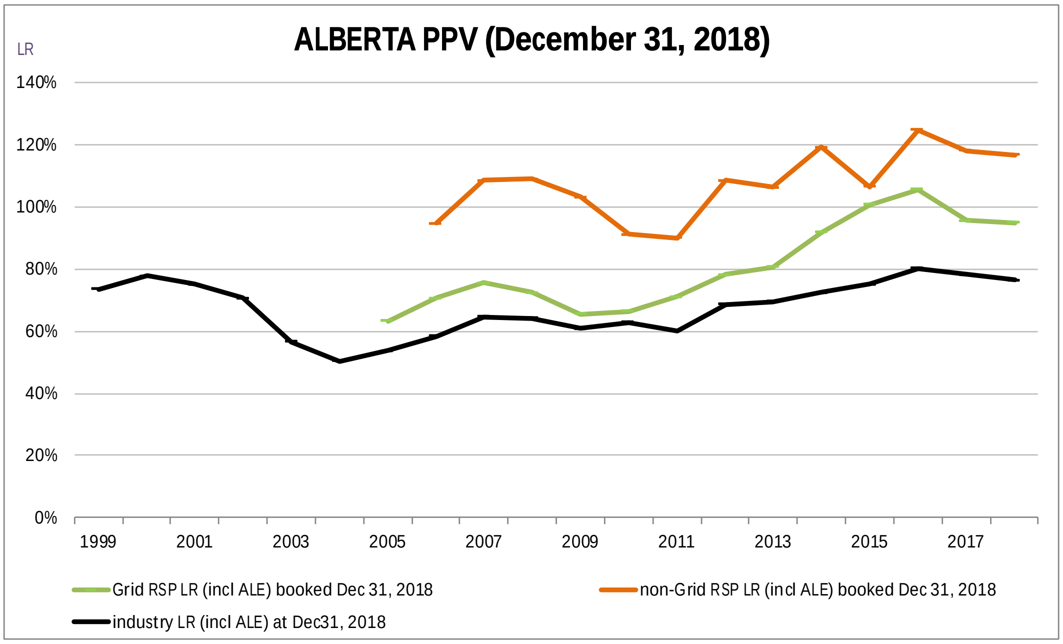
Valuation Period	Accident Year					
Grid RSP	2013	2014	2015	2016	2017	2018
as at Oct 31, 2014	79.4%	76.7%				
as at Oct 31, 2015	80.0%	85.3%	81.6%			
as at Oct 31, 2016	83.9%	92.4%	96.7%	88.5%		
as at Oct 31, 2017	83.2%	92.3%	101.1%	103.3%	96.0%	
as at Oct 31, 2018	**81.4%**	**90.7%**	**101.1%**	**104.1%**	**96.3%**	**96.3%**
Non-Grid RSP	2013	2014	2015	2016	2017	2018
as at Oct 31, 2014	110.7%	112.6%				
as at Oct 31, 2015	111.3%	117.4%	109.9%			
as at Oct 31, 2016	110.0%	121.9%	110.1%	120.2%		
as at Oct 31, 2017	108.8%	121.8%	113.2%	128.7%	121.1%	
as at Oct 31, 2018	**119.1%**	**105.0%**	**125.0%**	**117.7%**	**117.0%**	**121.7%**
Industry	2013	2014	2015	2016	2017	2018
as at Dec. 31, 2014	76.1%	77.1%				
as at Dec. 31, 2015	76.1%	77.3%	76.6%			
as at Dec. 31, 2016	77.5%	79.5%	80.8%	80.1%		
as at Dec. 31, 2017	78.1%	80.8%	84.2%	87.5%	83.5%	
as at Dec. 31, 2018	**77.2%**	**79.8%**	**83.0%**	**87.6%**	**86.0%**	**84.8%**

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.

- 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). The increasing gap between industry loss ratio and grid loss ratio is evidence of the industry's improving understanding of which grid business is unprofitable, and which is best kept for their own books.



- 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 7.6% of revenue (the 2018 premium market share of the Alberta RSPs), that return must be generated from those paying the remaining 92.4% of premium in the marketplace. If it cannot be, then as noted, companies may begin to take other actions.

- Taken together, the Risk Sharing Pools represent a large volume of premium likely to behave in a more volatile way than that of most individual companies. For example, per Table 6, the Grid RSP loss ratio jumped from 81.4% to 90.7% from accident year 2013 to 2014, and the Non-Grid RSP loss ratio decreased from 119.1% to 105.0% 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.

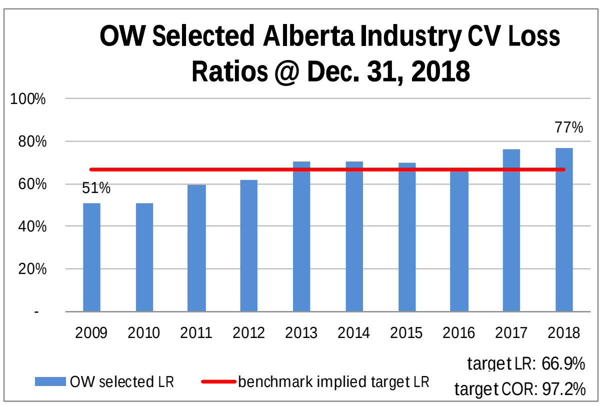
COMMERCIAL

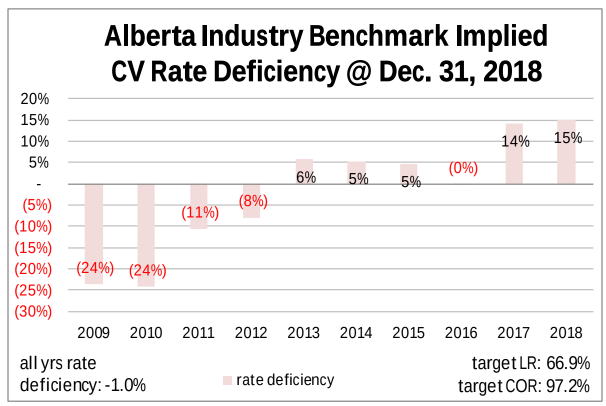
In Alberta the residual market for Commercial Vehicles including fleets is represented by the FARM, and there is no restriction on eligibility for these vehicles. As a result, when the market is restricted, we see a direct and immediate impact on the size of the FARM. Over the past year to June 2019, the FARM's commercial writings in Alberta have grown by 28%, from $20.8 million to $26.6 million. Of this $5.8 million growth in premium, half of it is fleet-rated, growing at 84%. For interurban vehicles (i.e. long-haul trucks), premium is up 226%, from $13.8 million to $45.0 million, becoming the largest class in the FARM in Alberta, accounting for almost 45% of total premium for the 12-months to June 2019. Of the $31.2 million increase in interurban vehicle premium, $15.7 million is fleet-rated, increasing 499% from $3.1 million to $18.9 million – on its own, fleet-rated interurban vehicle premium is now higher than all other rating classes, other than commercial vehicle for FARM in Alberta.

This mirrors a growth we are seeing in the commercial and interurban market across the country, where recent growth in commercial and interurban vehicles in the FARM has been significant (57% and 154% premium growth on a rolling 12-month basis to June 2019).

We are always concerned when there is growth in the residual market, but we are doubly concerned when that growth is accompanied by a deterioration in experience.

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





While the commercial residual market waxes and wanes over time, depending on developments in certain sub-classes of business, it is an added concern to us that this development is not restricted to single commercial vehicles, but represents numerous large fleets as well. Facility Association has a fleet program, however it is simplistic and was created to provide a general price for fleets that are outside the market norm, or who temporarily find themselves without a market. The growth of our fleets in the past year includes a number of large fleets, some in excess of 200 vehicles. This is a cause for concern; normally a large fleet would be in the regular market, where insurers are in a position to work with the fleet owners to provide loss control, advanced underwriting, and therefore the best rate. Fleets come to FA either because there is no market for a segment (such as taxis in some Atlantic provinces), because the rates in Facility have become inadvertently competitive with the market, or because there is a major restriction in the regular market appetite. Regular market fleet writers work with fleet operators to lower their risk and loss experience. This is a social benefit as well as a cost savings, as the result is fewer crashes and claims. Facility Association is neither designed nor equipped to provide this kind of fleet management service, and thus large fleets written in Facility Association is a cause for concern.

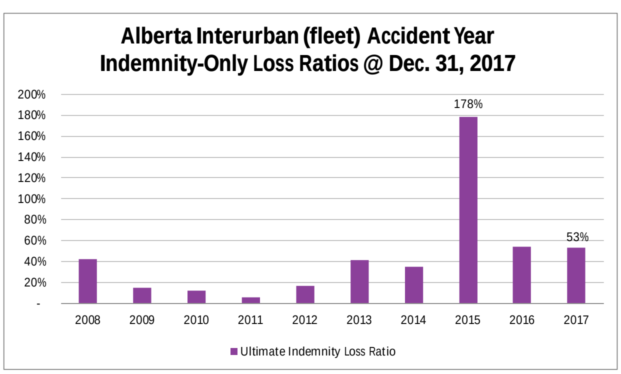
Earlier in the year, management undertook a review of the sources of the growth in commercial vehicles. The growth appears in two distinct areas: the interurban and haulage classes, and single small delivery trucks; there is no pattern by territory or region, except to note that Ontario and Alberta are leading the growth, with the remaining jurisdictions following. A significant and growing subset is presented as having no prior insurance.

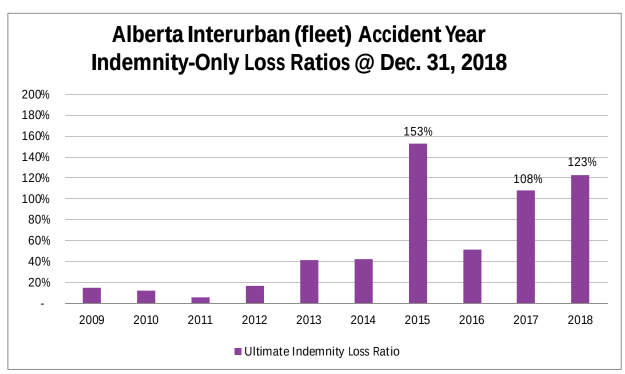
In the spring FA met with the Ontario Trucking Association, who expressed concern over what was characterized as a growing number of marginal operations, with poor safety records and practices, finding insurance coverage in the Facility Association. It was alleged that many of these operators misrepresent their operating jurisdiction, to get cheaper rates based outside Ontario, and misrepresent their US exposure as well as their claims history, purporting to be new ventures rather than existing operations with claims.

We have established a Commercial working group with representatives from commercial writers and large commercial brokerages as well as input from the Trucking Associations, and are reviewing the Facility Association underwriting rules and rating practices to ensure that we have the tools to properly rate these risks, and that Facility Association is not becoming an unwilling and unintended competitor for this business. We are also undertaking an audit of all larger fleets to review both the jurisdiction and history of their operations.

All of this is to ensure that we are not left solely with rate as a response to the growing unprofitability of this sector.

The chart below shows the deterioration in the fleet loss ratio in 2017, as well as a similar figure for 2018. The 2015 spike, which could be viewed as an anomaly through the lens of 2017, is now showing as the start of a deterioration in experience.





The recent growth in commercial fleet writings in the FARM points to a restriction in the regular commercial market for this line of business. Facility Association management continues to monitor this situation, and work with all stakeholders to ensure the ongoing stability of this market, but we have a limited number of tools at our disposal, and must work within the context of the overall market level of profitability and appetite for business.

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.

Facility Association's primary concern is always the protection of market availability, and the best guarantee of market availability is a heathy, competitive regular market.

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.