

# **Alberta Automobile Insurance Rate Board**

**2018 Annual Open Meeting**

**August 14, 2018**

# Representing Facility Association

- ❖ David Simpson, M.B.A., FCIP, C. Dir.  
President & CEO
  
- ❖ Shawn Doherty, FCIA, FCAS  
Senior Vice President, Actuarial & CFO

# Agenda

- ❖ Introduction
- ❖ Facility Association In Alberta
- ❖ Risk Sharing Pools – Size
- ❖ Risk Sharing Pools - Financial Performance
- ❖ Estimated industry loss ratios and need for rate
- ❖ Conclusion

# Facility Association Mission & Vision

## Mission

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

## Vision

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

# Facility Association in Alberta

## Residual Market Segment

- Non-Private Passenger vehicles
- Private Passenger vehicles subject to stringent eligibility criteria

## Risk Sharing Pools

- Private Passenger only
- Grid and Non-Grid

# Facility Association in Alberta

## Residual Market Segment Risks

- Written at rates approved for the segment

## Risk Sharing Pool Risks

- Written at individual company rates

# Facility Association in Alberta

Residual Market Segment and Risk Sharing Pool balances shared among all licensed automobile insurers in Alberta by:

- Line of business (PPV or Non-PPV)
- Accident Year

# Facility Association in Alberta

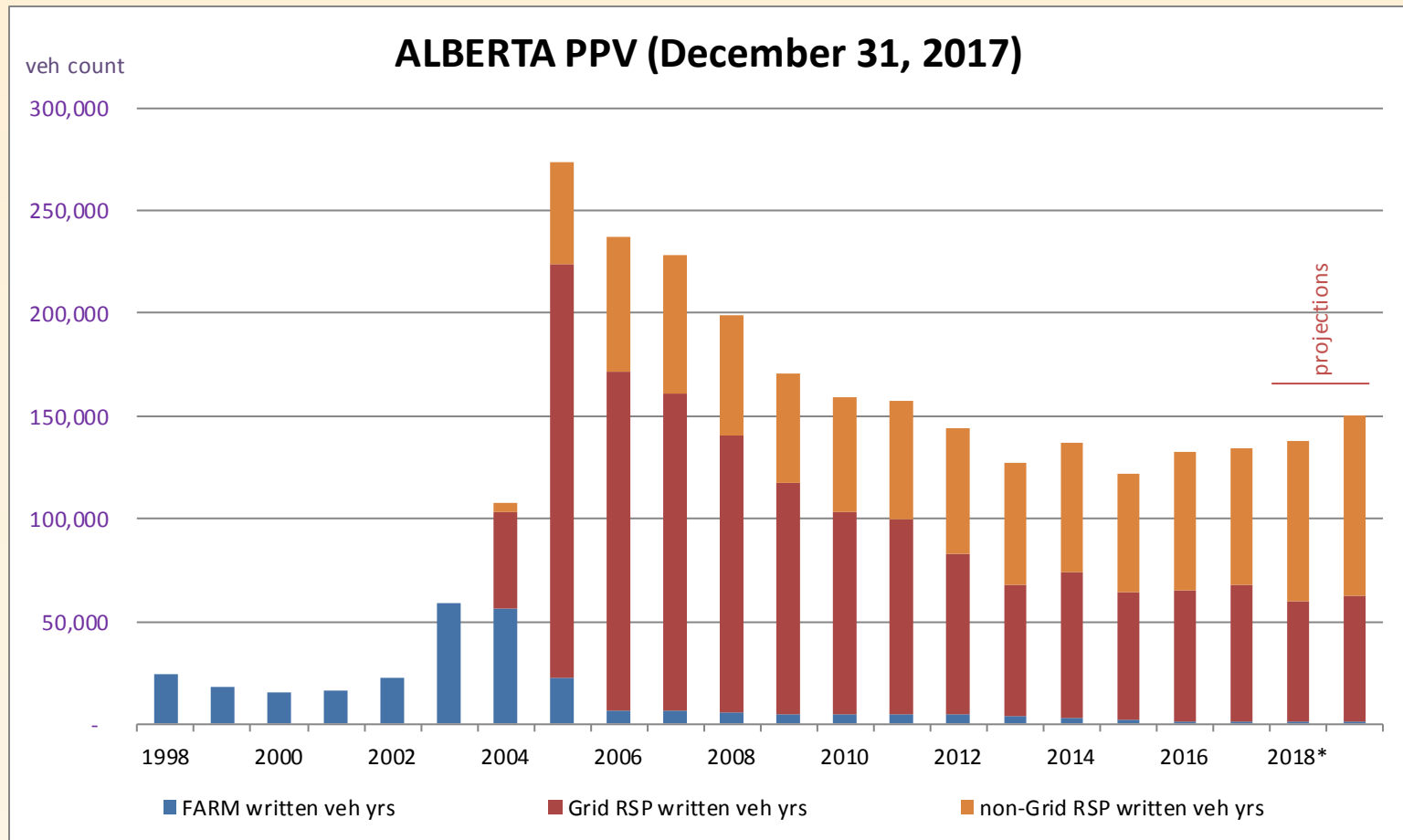
Residual Market Segment and Risk Sharing Pool are governed by the Plan of Operation

- as authorized by the Superintendent

More at [www.facilityassociation.com](http://www.facilityassociation.com)



# Individually-rated private passenger vehicles in FA residual market mechanisms in Alberta by AY



# Largest Residual Markets in North America

## 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%
<b>Alberta (RSP &amp; FARM)</b>	<b>4.9%</b>
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>)

# Alberta Residual Market Segment – Size and Market Shares

Private Passenger vehicles insured through the FA Residual Market Segment are subject to stringent eligibility criteria.

As indicated in table to right, historically, 90% of Private Passenger vehicles insured through the FA Residual Market Segment are grid-rated.

Non-Private Passenger vehicles are also insured through the FA Residual Market Segment, but are not the focus of today's discussion.

Accident Year	Written Exposure	Written Premium
2008	99.9%	99.1%
2009	95.6%	93.5%
2010	93.8%	91.2%
2011	93.5%	91.1%
2012	92.8%	90.2%
2013	93.3%	89.7%
2014	93.0%	88.9%
2015	89.7%	86.7%
2016	89.2%	86.0%
2017	90.6%	87.5%
<b>TOTAL</b>	<b>94.0%</b>	<b>91.1%</b>

# Alberta Residual Market Segment PPV – Size and Market Shares

Alberta Private Passenger Residual Market Segment – 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](http://www.facilityassociation.com))

# Alberta Risk Sharing Pools – Size and Market Shares

In general:

- The more price competition allowed; the smaller the residual market.

We believe:

- The current “file and approve” system of rate regulation in Alberta, established after the Industry-wide Adjustment process was discontinued in 2014, has the potential to reduce the size of the Risk Sharing Pools.

# Alberta Risk Sharing Pools – Size and Market Shares

## Grid Pool

- eligible exposures are those where premium for risk is capped by the Grid
- for eligible risks, no limit on the number of risks that can be transferred to the RSP

## Non-Grid Pool

- limited to 4% of written exposures not transferred to the Grid Pool by the company (at the Group level)

Private Passenger Vehicles only

# Alberta Risk Sharing Pools – Size and Market Shares

**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 RSP Outlook posted July 17, 2018 to the FA website ([www.facilityassociation.com](http://www.facilityassociation.com))

# Alberta Risk Sharing Pools – Size and Market Shares

**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	

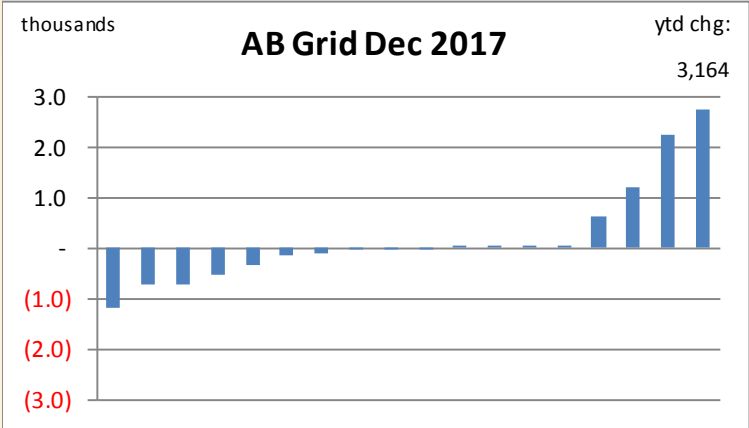
2018 and 2019 projections per the 2019 Preliminary RSP Outlook posted July 17, 2018 to the FA website ([www.facilityassociation.com](http://www.facilityassociation.com))



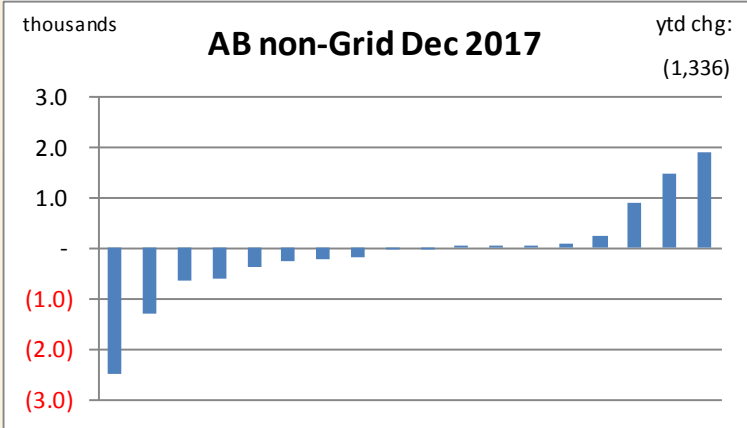
# Alberta Risk Sharing Pools – Company Member Group Activity during 2017

FOR CURRENT CALENDAR YEAR-TO-DATE TO Dec 2017

Change in RSP Pool Transfers - by Company Member Group



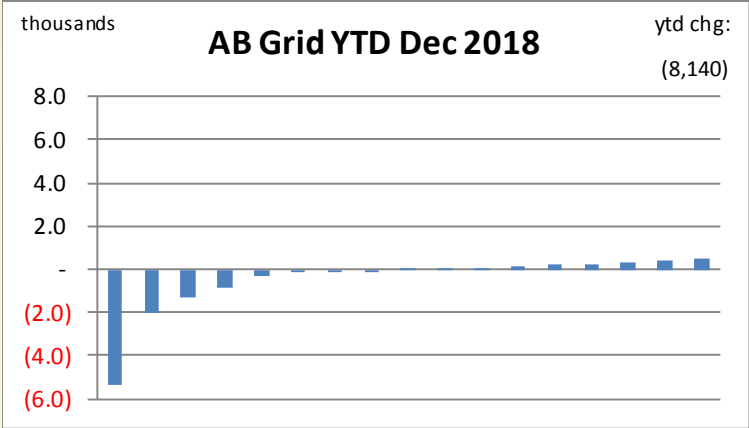
	# grps	chg
decliners:	10	(3,738)
no changers:	-	-
growers:	8	6,902



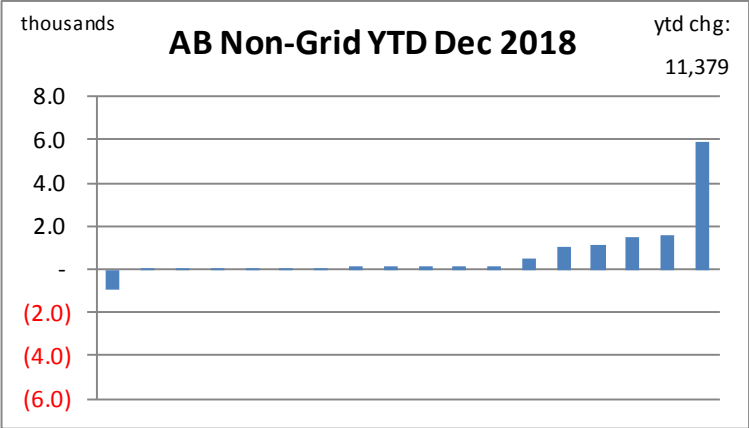
	# grps	chg
decliners:	10	(6,054)
no changers:	-	-
growers:	8	4,718

# Alberta Risk Sharing Pools – Company Member Group Activity **projected for 2018**

Change in RSP Pool Transfers - by Company Member Group



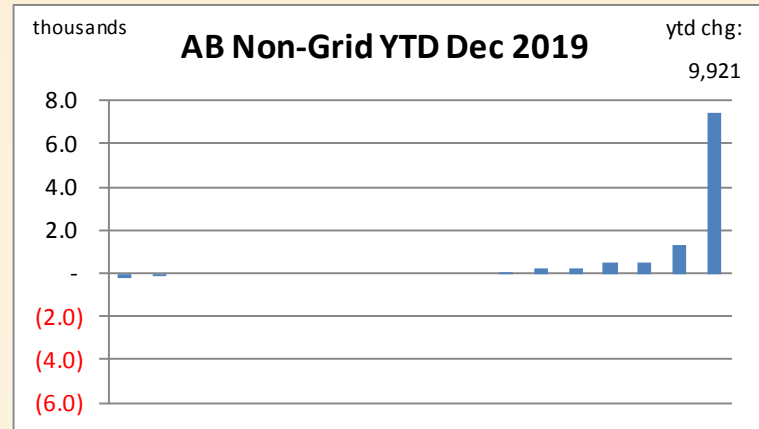
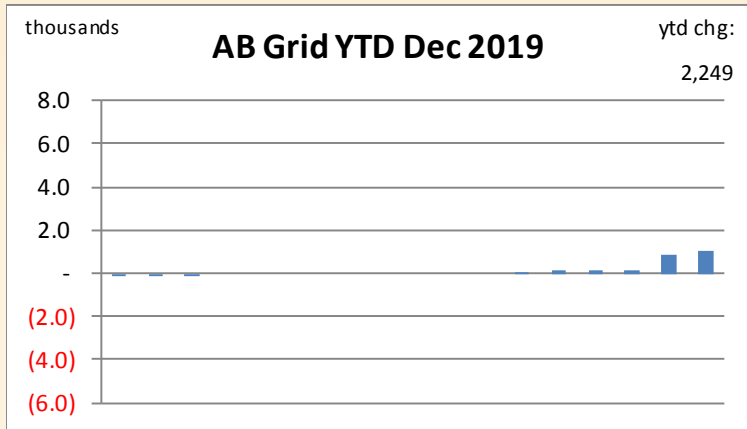
	# grps	chg
decliners:	8	(9,996)
no changers:	-	-
growers:	9	1,856



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

# Alberta Risk Sharing Pools – Company Member Group Activity **projected** for 2019

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



	# grps	chg
decliners:	5	(185)
no changers:	6	-
growers:	6	2,433

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

# Alberta Risk Sharing Pools – Ultimate Loss Ratios

Undiscounted Estimated Ultimate Loss Ratios (including loading for ALAE & ULAE)

Valuation Period	Accident Year					
	2012	2013	2014	2015	2016	2017
<b>Grid RSP</b>						
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%	
<b>as at Oct 31, 2017</b>	<b>78.9%</b>	<b>83.2%</b>	<b>92.3%</b>	<b>101.1%</b>	<b>103.3%</b>	<b>96.0%</b>
<b>Non-Grid RSP</b>						
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%	
<b>as at Oct 31, 2017</b>	<b>108.4%</b>	<b>108.8%</b>	<b>121.8%</b>	<b>113.2%</b>	<b>128.7%</b>	<b>121.1%</b>
<b>Industry</b>						
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%	
<b>as at Dec. 31, 2017</b>	<b>75.7%</b>	<b>78.1%</b>	<b>80.8%</b>	<b>84.2%</b>	<b>87.5%</b>	<b>83.5%</b>

## Per AIRB Request:

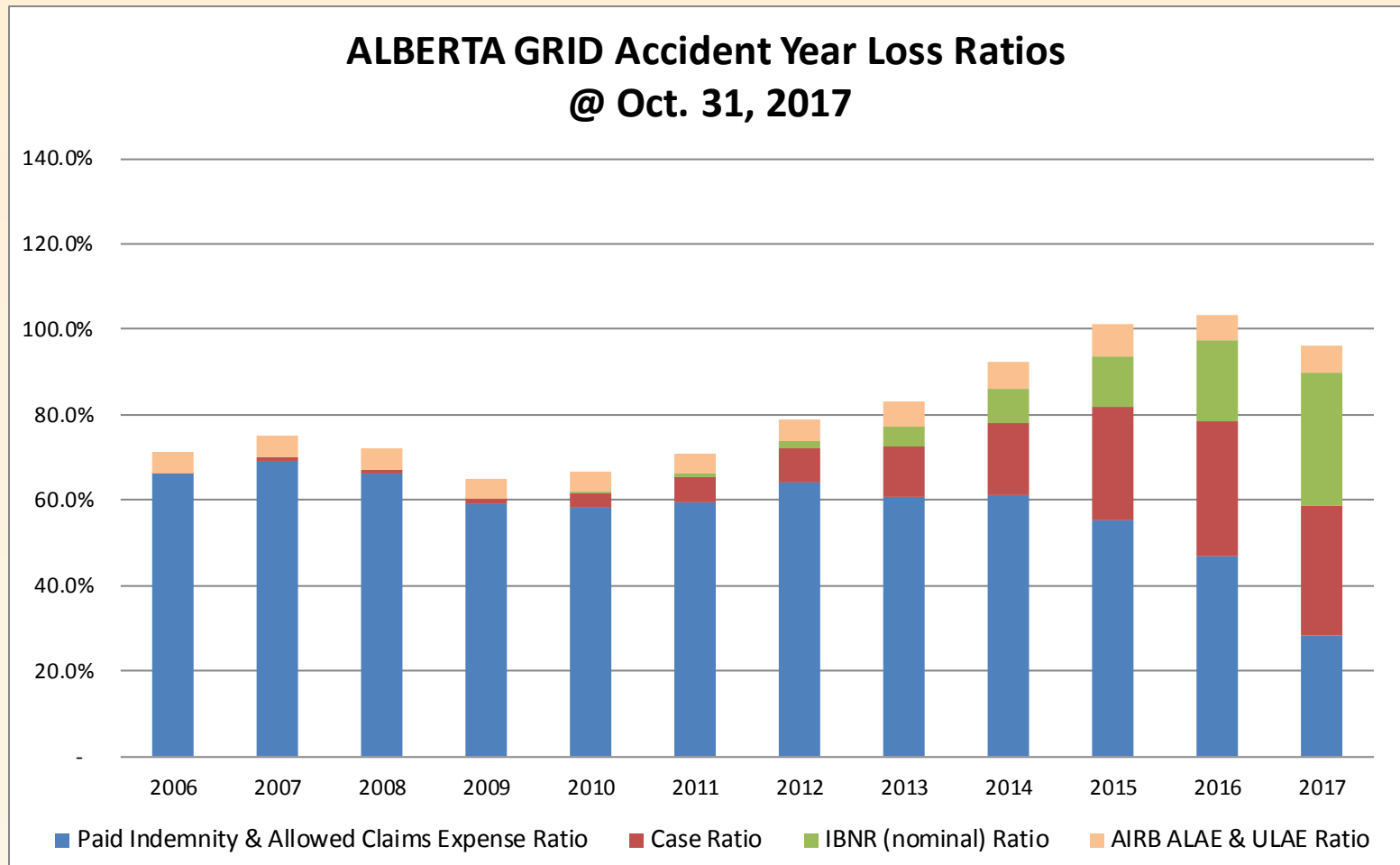
Ultimate loss ratios in this table are on an all coverages basis, and have been loaded for allocated loss adjustment expenses (ALAE) and unallocated loss adjustment expenses (ULAE) to increase comparability with other sources of industry loss ratios.

The claims expense inclusion was accomplished via a “factor” applied to the indemnity only loss ratios.

For the RSPs, the loss ratios in this table will not match other FA published sources (where only allowed claims expenses are included).

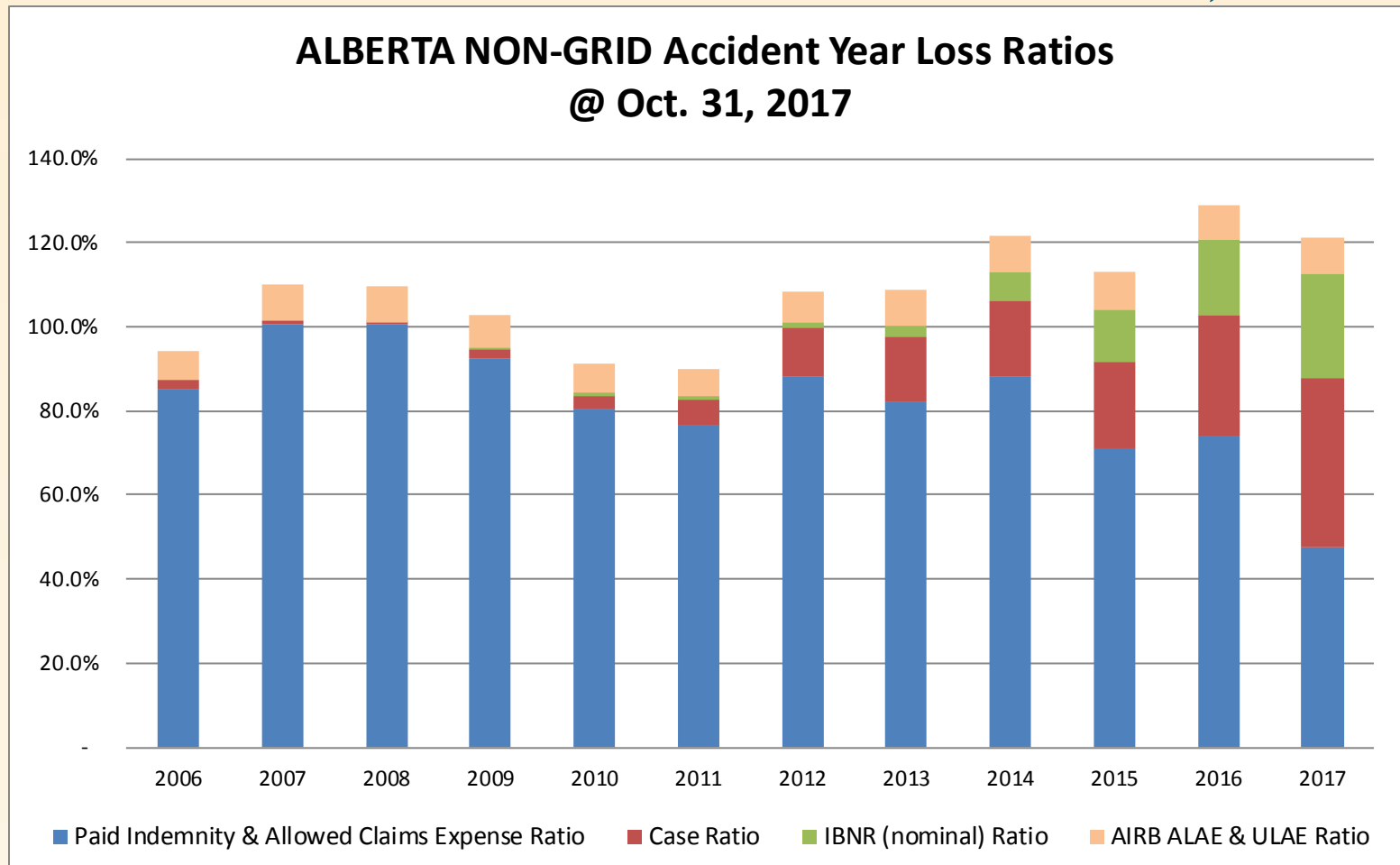
# Alberta Risk Sharing Pools – Grid RSP

## Ultimate Accident Year Loss Ratios @ Oct 31, 2017



all coverages basis

# Alberta Risk Sharing Pools – Non-Grid RSP Ultimate Accident Year Loss Ratios @ Oct 31, 2017



all coverages basis

# Alberta Risk Sharing Pools - Financial Results

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

Fiscal Year (\$000s)	Total	Grid RSP	Non-Grid RSP
2007 and prior	(60,069)	7,953	(68,022)
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 RSP Outlook assumptions

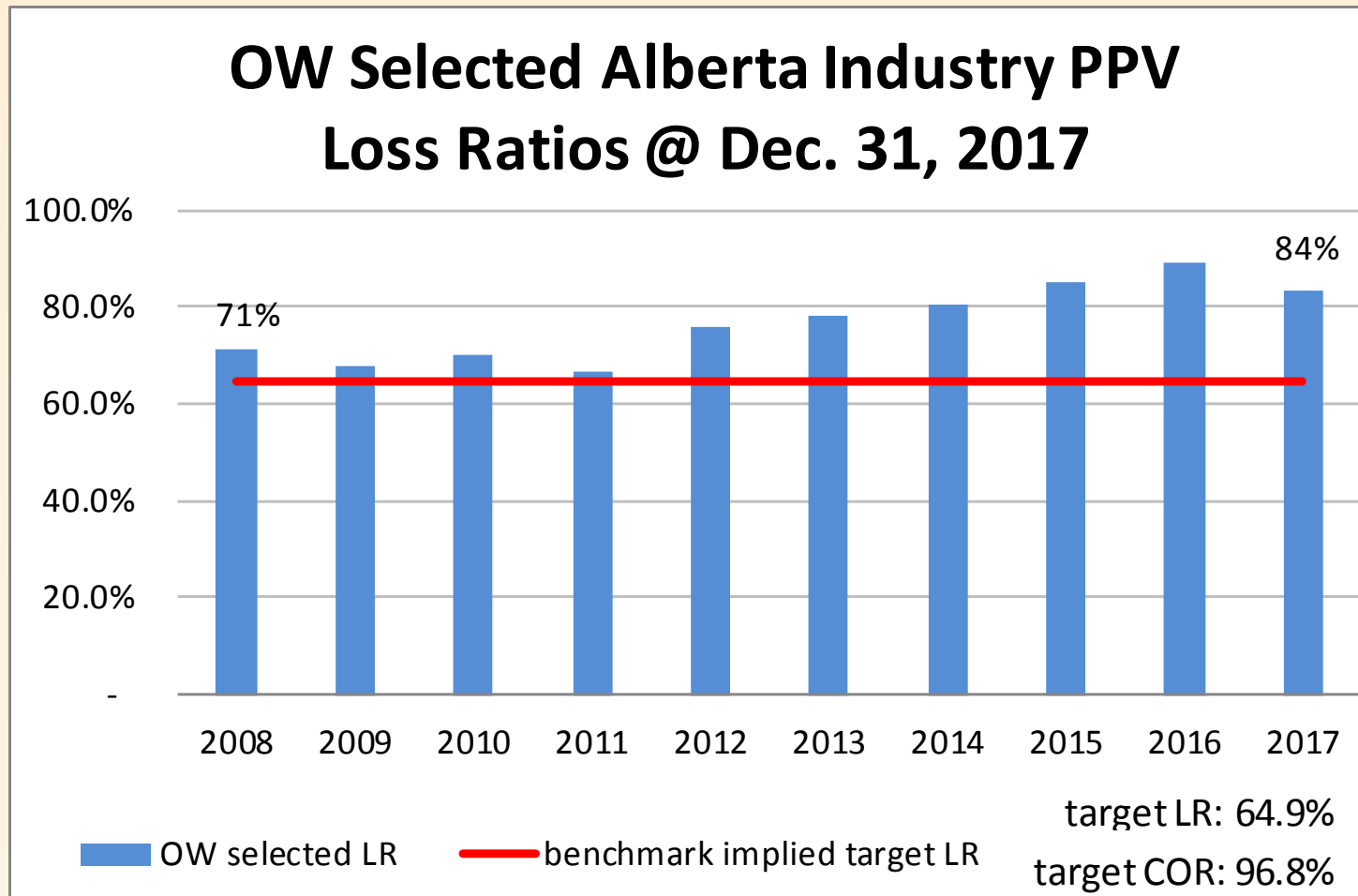
# Alberta Risk Sharing Pools - Financial Results

Financial Results Do Not Include the Following Member Company Impacts:

- Health Levies
- Premium Taxes
- Income Taxes
- Cost of Capital
- Investment Income

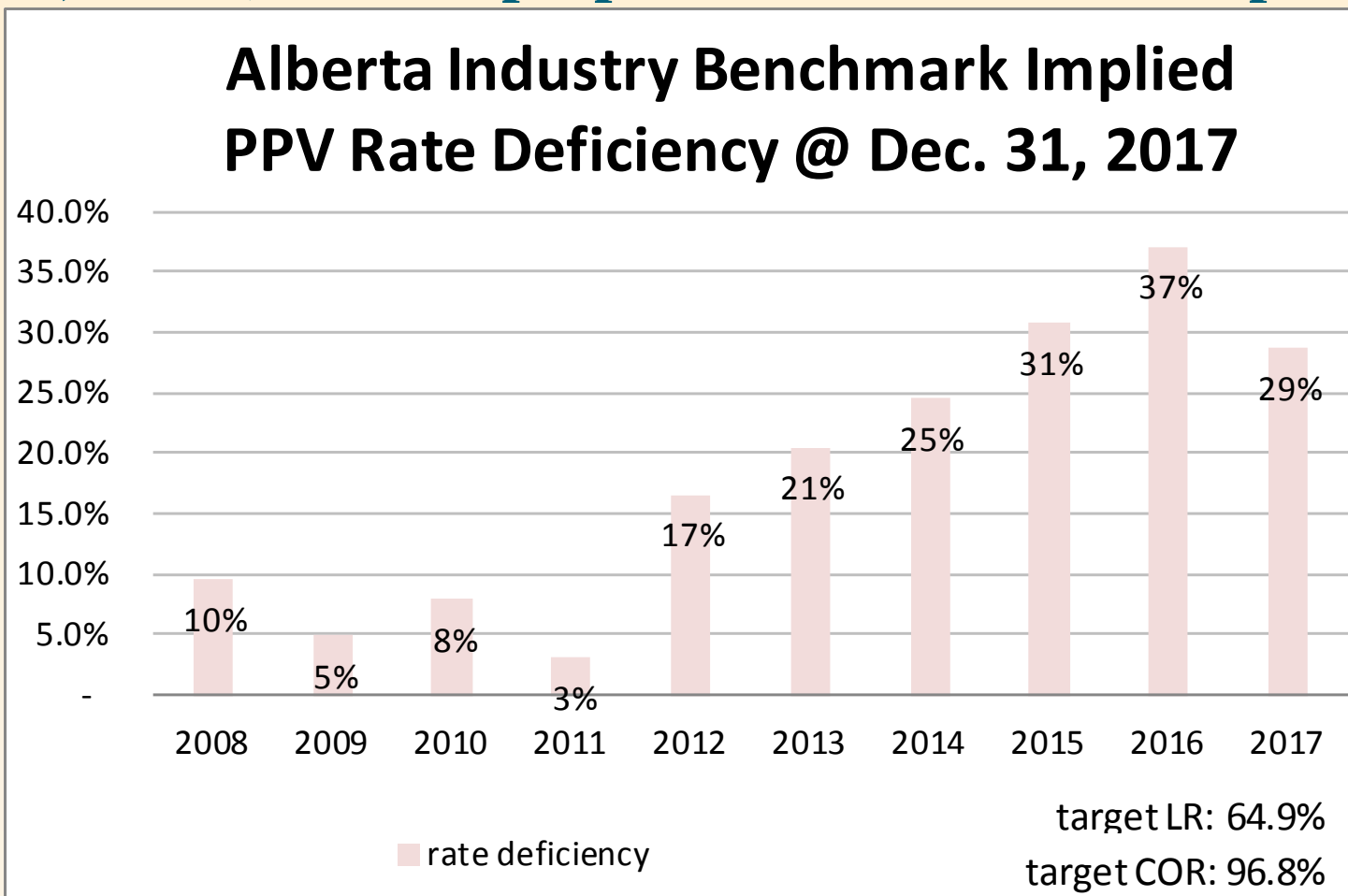


# Alberta Industry Accident Year Ultimate Loss Ratios (OW Estimates, includes ALAE/ULAE) @ Dec. 31, 2017



all coverages basis

# Alberta Industry Accident Year Implied Rate Deficiency @ Dec 31, 2017 (based on proposed benchmark assumptions)



# Potential Market Consequences

## Risk:

- Large, potentially volatile, Risk Sharing Pools reduces market attractiveness for industry participants

## Result:

- Less choice for consumers

# Potential Market Consequences

## Risk:

- Risk Sharing Pools not financially self-sufficient

## Result:

- Requires subsidization from other consumers, i.e., lower-risk drivers subsidize higher-risk drivers

# Potential Market Consequences

- Market impacts are not necessarily company impacts
- Worth considering when companies make individual rate applications

# Preferred Outcomes

- Smaller Risk Sharing Pools because:
  1. Volatility of results impacts companies less
  2. Consumers benefit from a competitive market and market stability

## Achieve Outcomes By

- Fewer risks eligible for the Grid
- Adequate Grid rates
- Increased competition below the Grid

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