

Alberta Automobile Insurance Rate Board

2019 Annual Open Meeting

August 15, 2019

Representing Facility Association

- ❖ **Saskia Matheson**
President & CEO
- ❖ **Shawn Doherty, FCIA, FCAS**
Senior Vice President, Actuarial & CFO

Agenda

- ❖ Introduction
- ❖ Facility Association In Alberta
- ❖ Risk Sharing Pools – Size and Market Availability
- ❖ Commercial and Interurban
- ❖ The need for a range of reasonability
- ❖ Conclusion

FA 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.

Residual Market (FARM)

- Non-Private Passenger vehicles
- Private Passenger vehicles subject to stringent eligibility criteria
- Written at rates approved for FARM

Risk Sharing Pools (RSP)

- Private Passenger only
- Grid and Non-Grid
- Written at individual company rates

Residual Market Segment and Risk Sharing Pool obligations and operating results are shared among all licensed automobile insurers in Alberta by:

- **Business Segment (PPV or Non-PPV)**
- **Accident Year**

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

More at www.facilityassociation.com

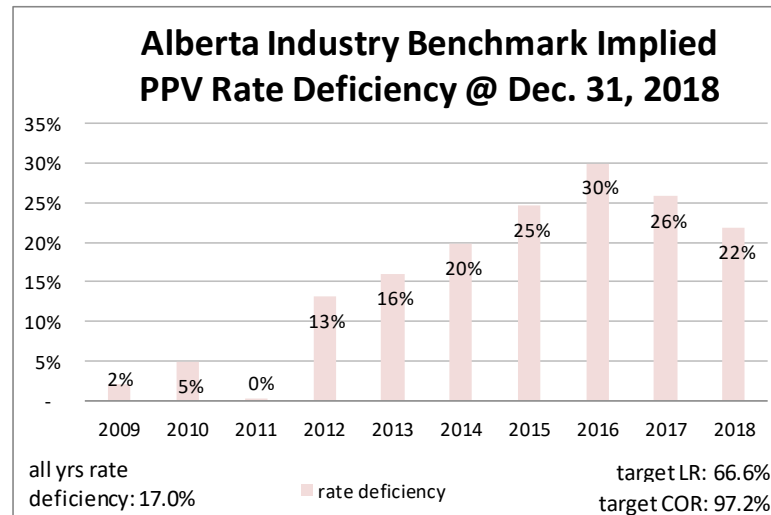
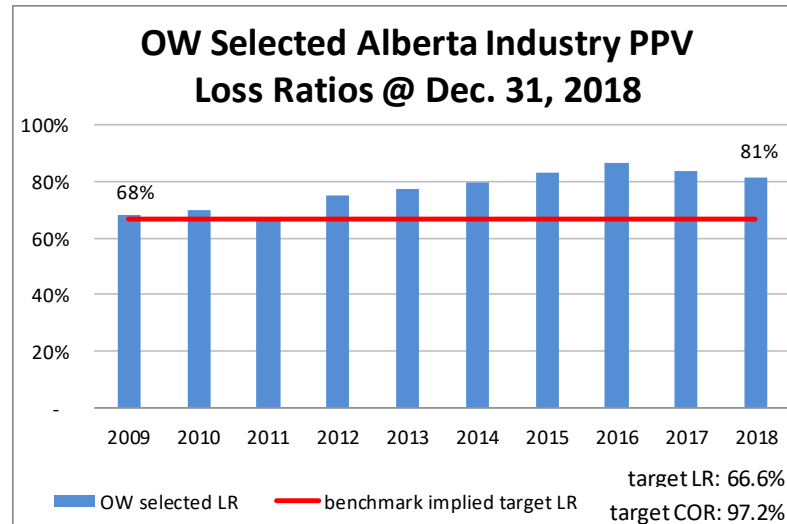
Other responsibilities:

- ❖ **The Underwriting Information Plan (UIP)**
- ❖ **Market Availability Plan (Alberta)**
- ❖ **Uninsured Automobile Funds & Judgement Recovery (Atlantic)**

Risk Sharing Pools – Size and Market Availability

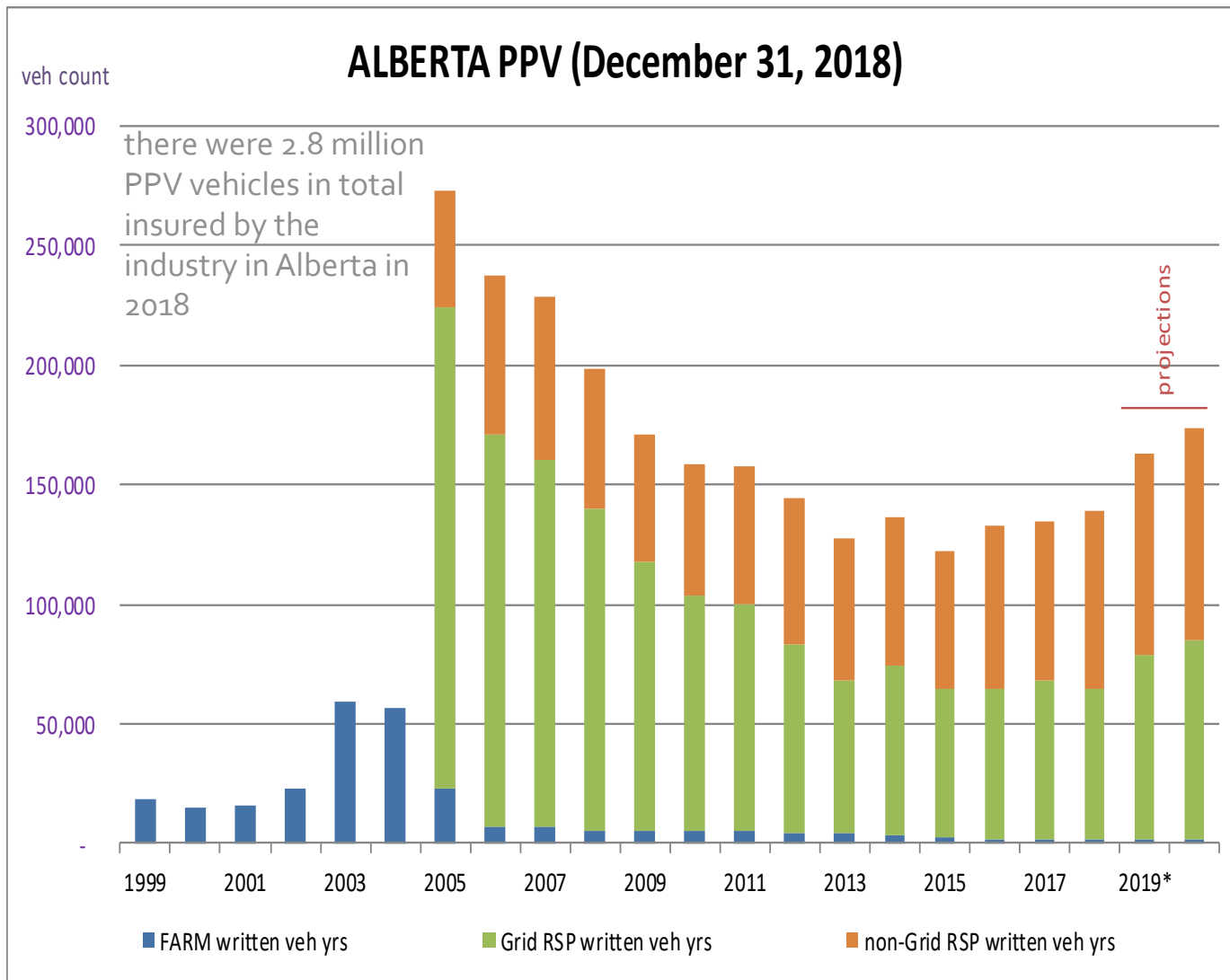
Long term profitability struggles may undermine the ability of the mechanisms to react

Profitability Concerns Alberta PPV



based on assumptions consistent with the OW Preliminary PPV Report

FA in Alberta Market Share



RSP &
FARM
Combined
Market
Share

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>)

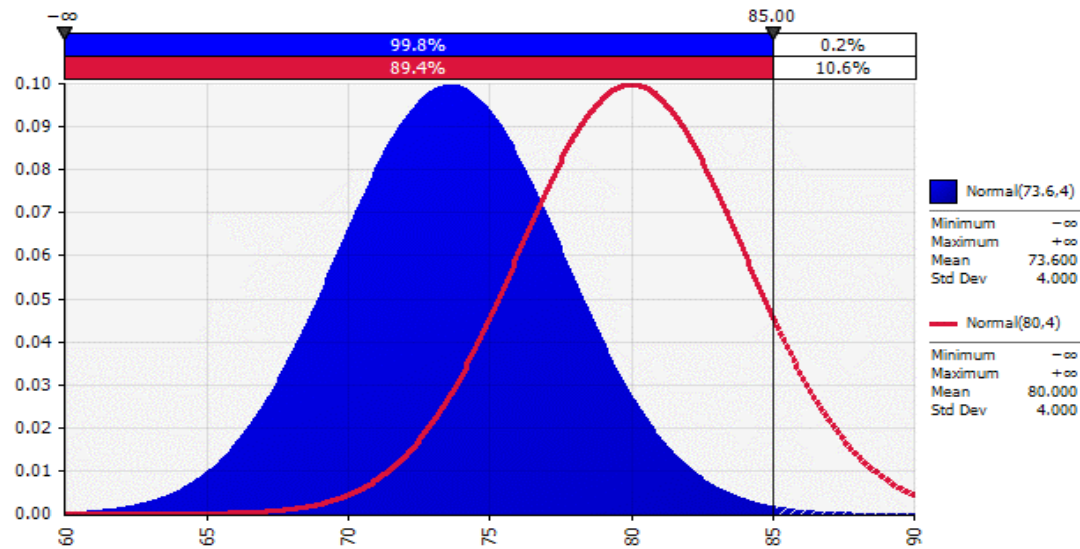
the RSPs &
FARM
accounted for
7.8% of PPV
premium in
2018, and an
estimated
12.5% of
nominal claims
liabilities as at
Dec 31 2018

The
Potential
Impact of
Long Term
Inadequate
Pricing

- FARM is designed to allow underpriced segments to be insured at an adequate price
- RSP is designed to provide temporary capacity for systemically priced subsets of the market in an *overall adequately priced market*
- In a non-adequately priced market at the average, mechanisms will no longer work as intended

Possible Book Distribution Profile under Industry Stress

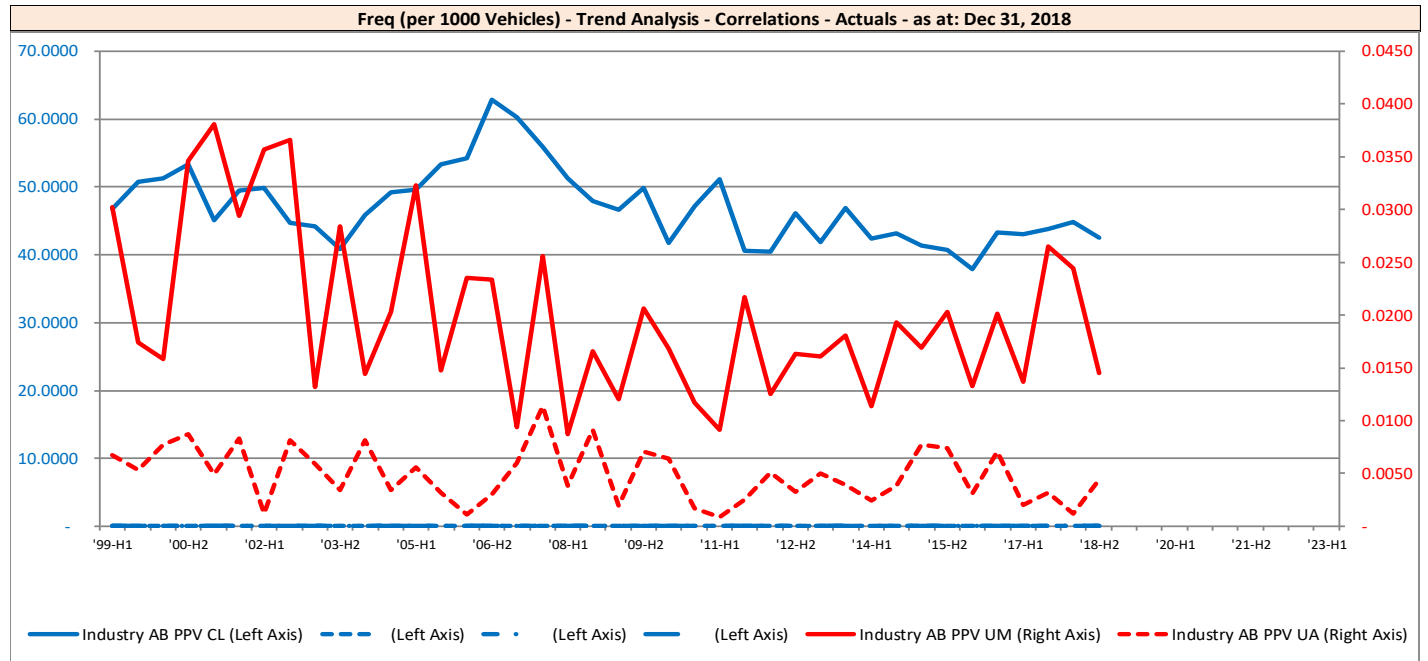
- Traditional view is company will progressively transfer more business as loss ratio of book increases.
- At increased loss ratio from systemic underpricing, more business qualifies for transfer than the 5%, and it is not possible to distinguish subsets.



- If the average loss ratio is too close to the transfer cutoff, large companies will view the transfer as moot.

Uninsured Auto - Is there an Issue?

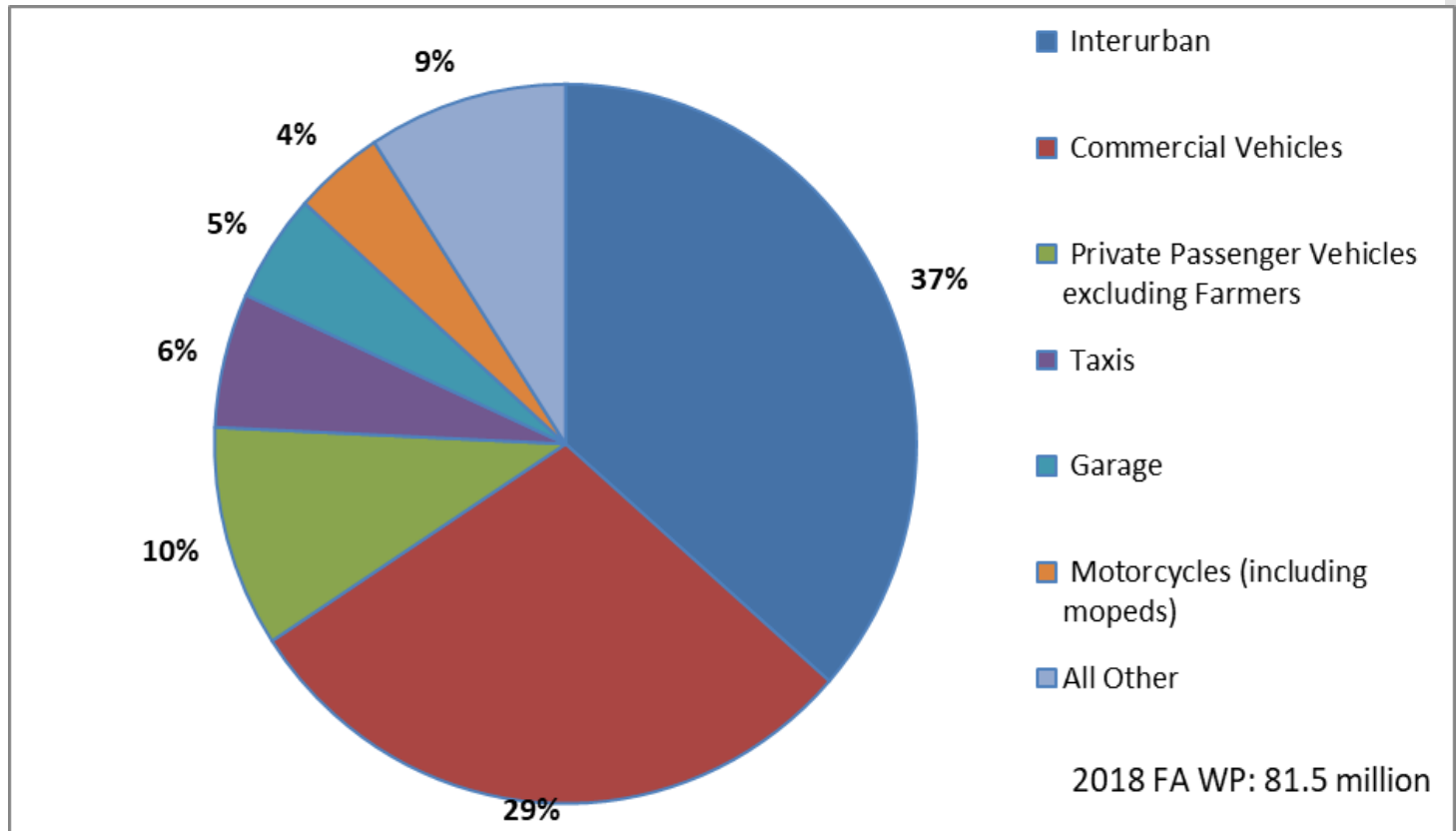
- Reports of brokers losing their markets
- Reports of consumers having difficulty obtaining insurance
- Unfortunately, this is a very difficult area to get any real data



Commercial and Interurban Fleets

A growing concern

Facility Association - 2018 Alberta WP Split by Major Class



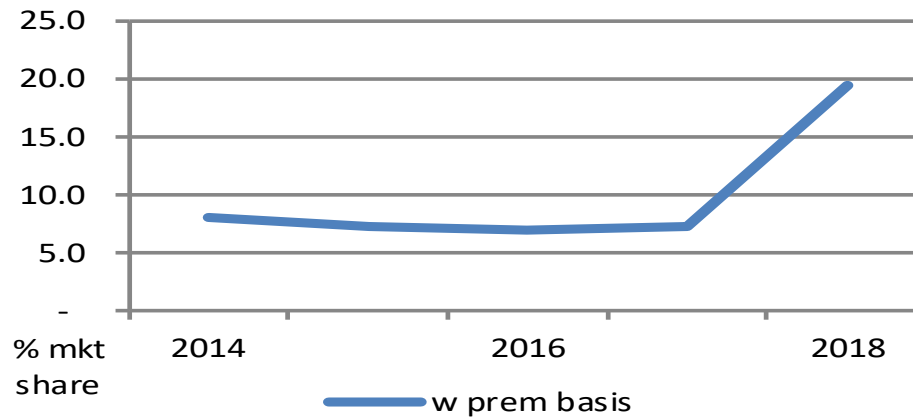
The growing Importance of Commercial Residual

Interurban Vehicles Alberta

Interurban Vehicles Premium is shown in \$'000s

\$000s	FA		
	Written Exposure (excl trailers)	Written Premium	Average Written Premium
2014	1,347	9,314	6,917
2015	1,172	8,466	7,224
2016	992	7,150	7,209
2017	1,188	8,809	7,415
2018	2,957	29,714	10,049
Total	7,655	63,454	8,289

FA Market Share Thru Time



Predicting the Future and Balancing Risk

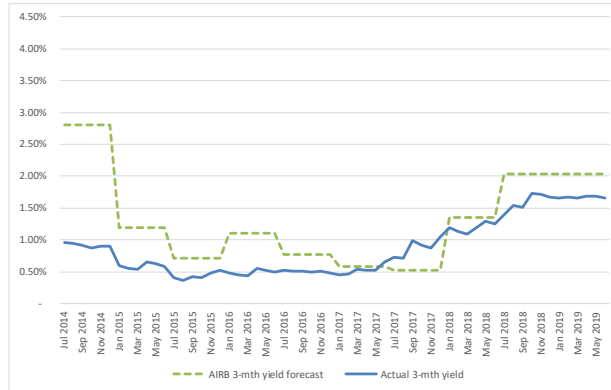
The case for a range of Reasonability

The case for
a range of
reasonability

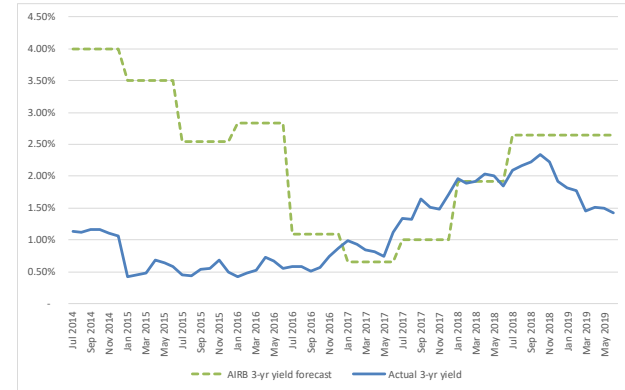
- **Rate making is an exercise in predicting the future**
- **All predictions are, by definition, estimates, and estimates can be incorrect**
- **Annual review sets factors which operate to construct a cap on rate level**
- **Companies are always permitted to charge less than the filed rate**
- **The annual review should allow companies a range of reasonable factors**

Forecasting Investment Income on Cash Flow

AIRB selected 3-month risk free yield forecast vs actual per Bank of Canada



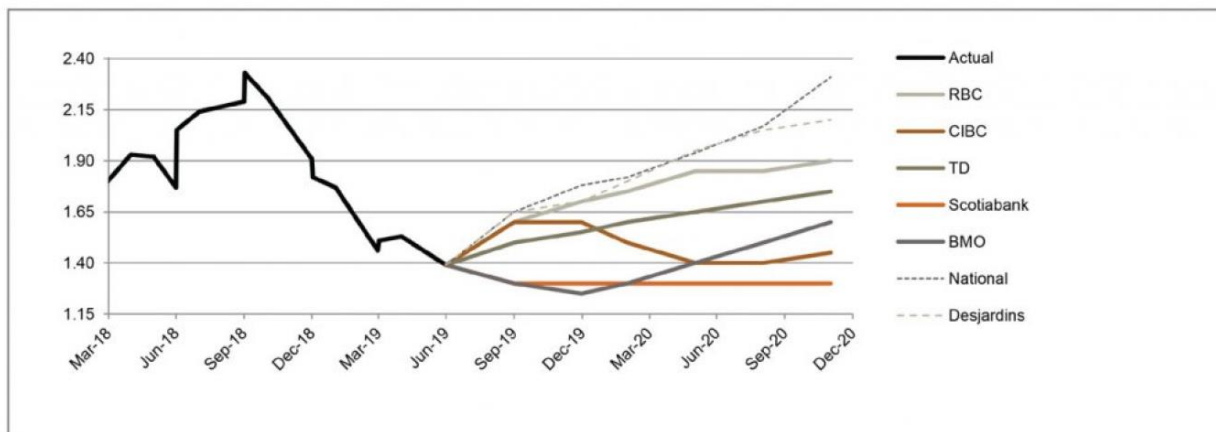
AIRB selected 3-year risk free yield forecast vs actual per Bank of Canada



- Historically, the Alberta Treasury’s forecasted yields used by the AIRB to set the benchmark risk-free discount rate have been high in comparison to actual
- for example, for the forecasts used for the 3-month treasuries, forecasted yields were higher than actuals in 53 of the 60 months indicated in the chart above and to the left
- similarly, per the chart on the right, the 3-year forecasted yields were higher than actuals in 44 of the 60 months indicated
- in addition, due to the nature of myriad influences on yields, forecasts are quickly out-of-date

Forecasting Investment Income on Cash Flow

CANADA 2 YEAR GOVERNMENT BOND YIELDS (% FORECAST)



Source: Richter's semi-annual economic forecast update (June 2019)

- In addition, there can be many reasonable views on where yield curves are headed
 - as an example, we have reproduced above the 2-year yield forecasts by various banks as reported by Richter's in their June 2019 semi-annual
 - the forecasted yields at September 2019 range from 1.25% to 1.65% (a range of 40 basis points) and at December 2020 range from 1.25% to 2.30% (over 100 basis points).
- Range of reasonable forecasts are possible
- FA recommends the Board permit an assumption range that the AIRB views as de facto reasonable (perhaps 2.84% +/-1.00%)

Conclusions

- **The residual market mechanisms have operated successfully to stabilize the market and help ensure availability during various market adjustments**
- **Long term profitability pressures in the market raise concerns over market stability and availability**
- **The Commercial and Interurban sectors , including fleets, are experiencing significant pressure and a reduction in market appetite**
- **It is even more important now to provide a range of reasonability around predictive factors**