

Alberta Automobile Insurance Rate Board – 2022 Open Meeting

August 18, 2022

Classification: Protected A



Agenda

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- Introductions
 - Overview of FA
 - FA Market Share in Alberta
 - Growth of GRID
 - FA Growth of Commercial & Interurban in AB
 - Range of Reasonability
 - Conclusions/Q&A

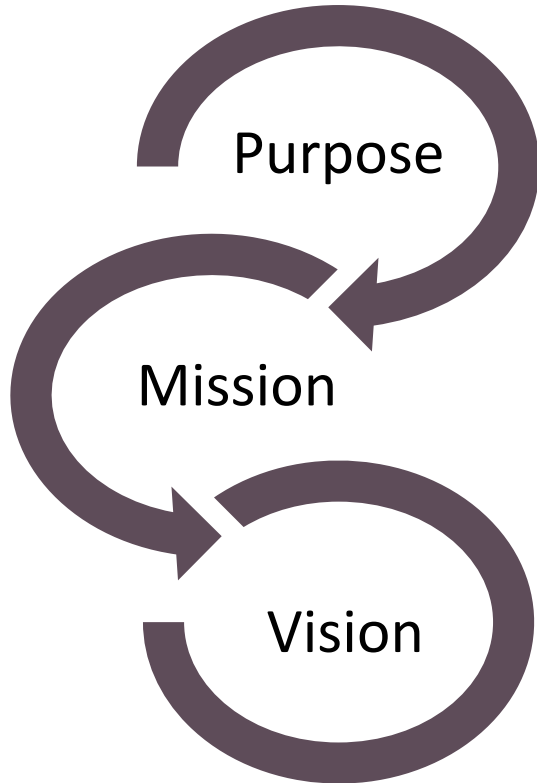
Representing Facility Association

Saskia Matheson – President & CEO

Philippe Gosselin – Vice President, Actuarial & CRO

Derek Tupling – Vice President, Government Relations & Communications

Facility Association Purpose, Mission, Vision



To ensure the availability of automobile insurance to owners, lessees and licensed drivers of motor vehicles who are eligible.

To deliver on our Purpose through the efficient administration of automobile insurance residual market mechanisms and by providing valued information to our members. Facility Association strives to enhance market stability through minimizing its market presence and impact, in an effort to provide consumers with the benefits of a healthy and competitive standard insurance market.

Facility Association is recognized as an essential component of the Canadian P&C insurance industry, supporting Canadians and the Canadian economy through its highly efficient and effective administration of automobile insurance residual markets and data governance; Facility Association is sought out for its objective opinion on residual markets and related issues.

How It All Fits Together

FARM

Guarantee Market Availability Directly to those who need it

RSPs

Support Market Availability in the Regular Market by providing protection where there is an inability to adequately price

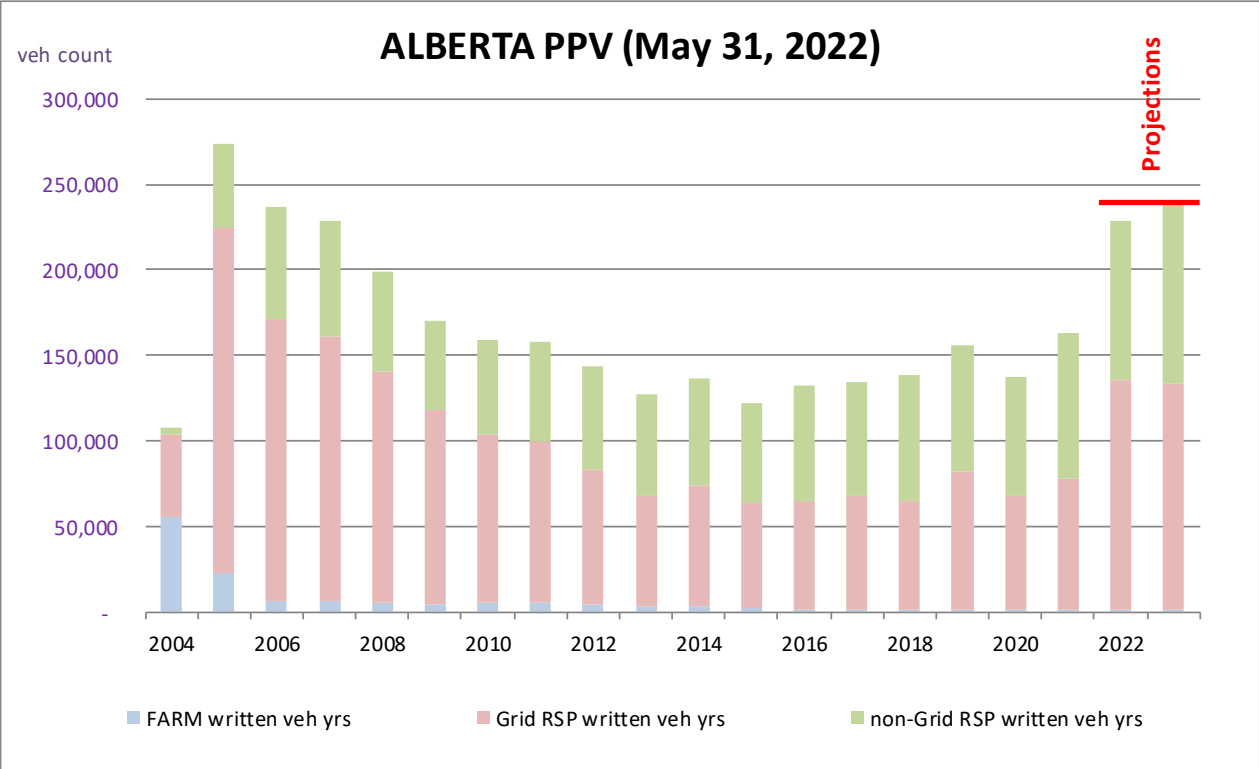
UIP

Enable Market Availability by ensuring accurate risk history data is reported and available to permit a fair and accurate premium

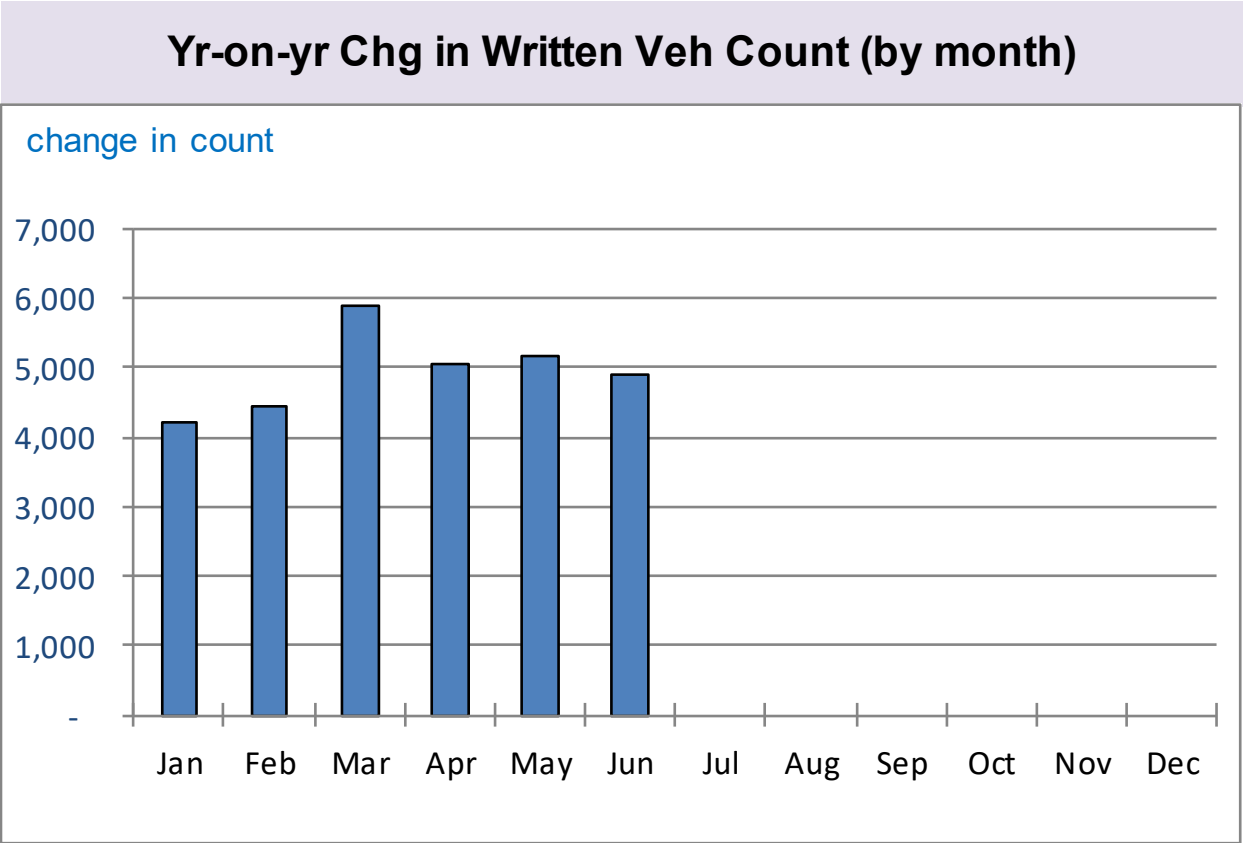
Reporting

Ensure Future Availability by providing verified, reliable data and projections so members and stakeholders can monitor and plan

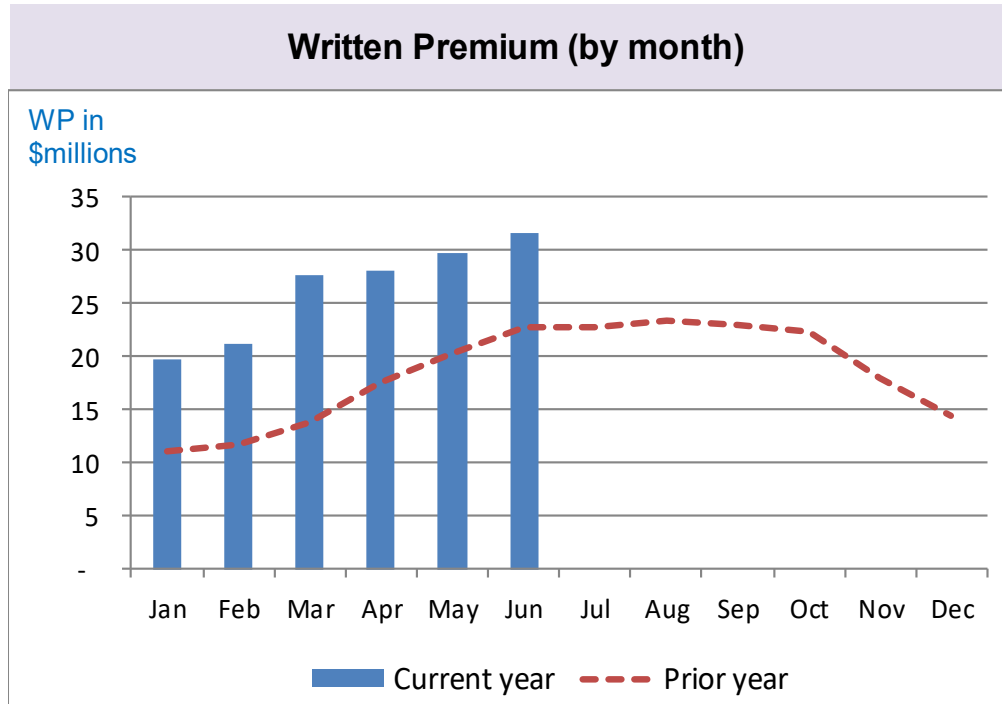
Alberta Market Share



Grid Pool – Vehicle Counts (2022)

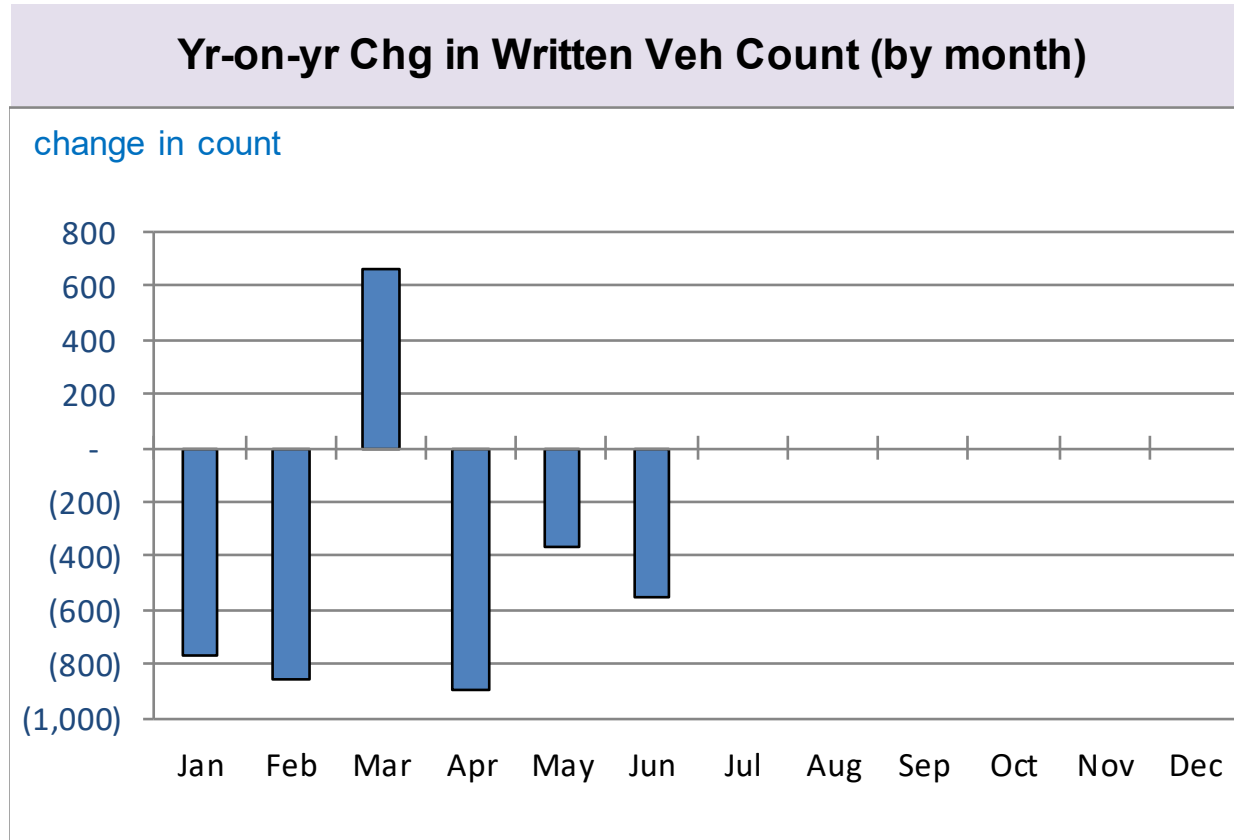


Grid Pool – Written Premium (2022)

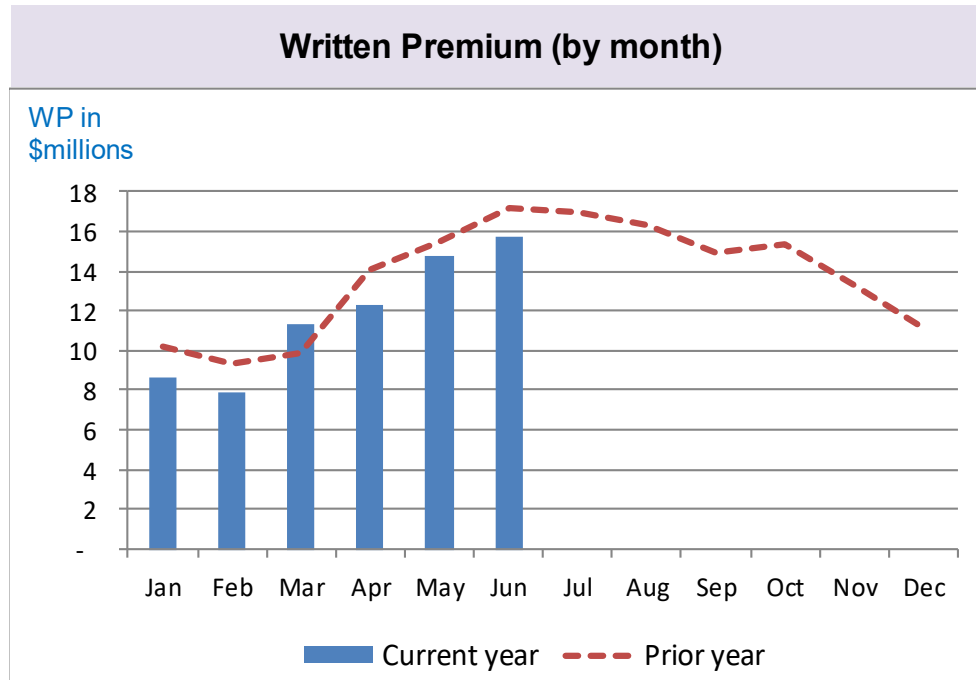


| | Jun-22 | Jun-21 | Amt Chg | % Chg |
|-----------------|---------|--------|---------|-------|
| WP (\$000s) YTD | 158,131 | 96,868 | 61,263 | 63.2% |

Non-Grid Pool – Vehicle Count (2022)



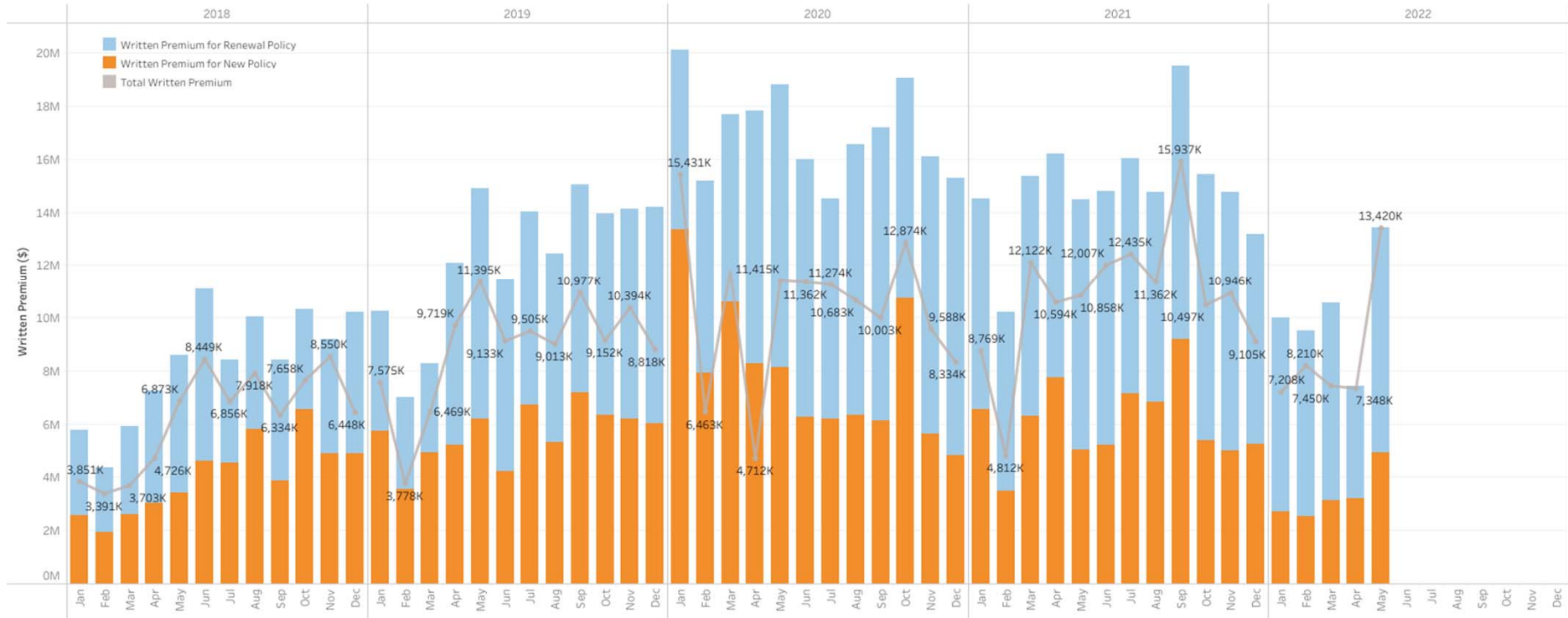
Non-Grid Pool – Written Premium (2022)



| | Jun-22 | Jun-21 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| WP (\$000s) YTD | 70,526 | 76,052 | (5,527) | -7.3% |

FARM Non-PPV – Written Premium New & Renewal

FARM Alberta Jurisdiction non-PPV Written Premium by New and Renewal Business
(as at share date: May 2022)



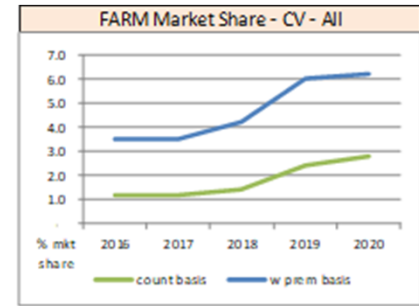
Data: FARM transaction data reconciled with Monthly FARM operational reporting.
Note: Total Premium includes new, renewal, adjustment and endorsement transactions.

Growth of Alberta GRID

- FA is concerned with the **significant** growth of the grid-capped portion of the market, as well as with the correlated significant growth in the Grid Risk Sharing Pool (“Grid RSP”).
- Since January, the Grid has grown to an unprecedented **9.20%** of the market
- Since January, the market share of the Grid RSP has reached a historical high of **3.79%**
- If the premium difference between the Grid base premium and the industry is not addressed, we expect the grid-capped market and Grid RSP will continue to increase.
- Based on the latest input from members, we are expecting the number of vehicles ceded to the Grid RSP to grow by almost **75%** and the total RSPs by more than **40%** in 2022.
- FARM market share growth is at least balanced by the design of the mechanism to be cost neutral. The danger of a large market share in RSP is that the mechanism is designed to be subsidized.
- RSPs market share growth becomes, in our view, an important strategic consideration for insurers because such market conditions works against the spirit of a healthy and competitive insurance market.

Growth of Commercial Vehicles at FA

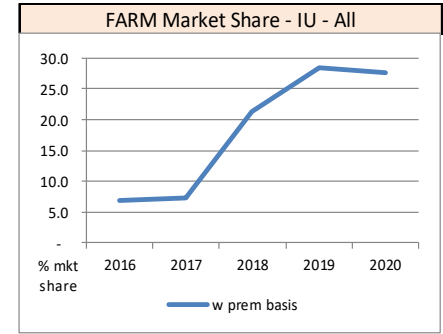
| Written Premium Is in \$000s | | FARM - CV - All | | | Industry - CV - All | | | FARM Market Share / AWP | |
|------------------------------|-------|---|-----------------|-------------------------|---|-----------------|-------------------------|--------------------------------|----------------------------|
| Commercial Vehicles | Year | Written Exposure (excl trailers) - policy | Written Premium | Average Written Premium | Written Exposure (excl trailers) - policy | Written Premium | Average Written Premium | FARM Market Share (veh counts) | FARM Market Share (w prem) |
| CV | 2016 | 5,031 | 18,756 | 3,728 | 410,021 | 533,544 | 1,301 | 1.2 | 3.5 |
| CV | 2017 | 4,880 | 19,411 | 3,978 | 392,178 | 547,392 | 1,396 | 1.2 | 3.5 |
| CV | 2018 | 5,547 | 24,569 | 4,429 | 383,008 | 584,381 | 1,526 | 1.4 | 4.2 |
| CV | 2019 | 7,898 | 37,921 | 4,802 | 331,544 | 631,827 | 1,906 | 2.4 | 6.0 |
| CV | 2020 | 8,335 | 42,186 | 5,061 | 299,688 | 680,988 | 2,272 | 2.8 | 6.2 |
| | Total | 31,691 | 142,843 | 4,507 | 1,816,439 | 2,978,133 | 1,640 | 1.7 | 4.8 |



- Industry CV written exposure has been decreasing steadily, while the FARM CV market share has been steadily increasing.
- FARM market share has more than doubled in this time frame, increasing from 1.2% in 2016 to 2.8% in 2020
- FARM CV written exposure has continued to increase in 2021 to 9,072 exposures.
- With the continued increase of the FARM CV written exposure and FARM CV market share, we are concerned for future availability in Alberta for commercial vehicles.

Growth of InterUrban Vehicles at FA

| Written Premium is in \$000s | | FARM - IU - All | | | Industry - IU - All | | | FARM Market Share / AWP | |
|------------------------------|-------|---|-----------------|-------------------------|---|-----------------|-------------------------|--------------------------------|----------------------------|
| Interurban | Year | Written Exposure (excl trailers) - policy | Written Premium | Average Written Premium | Written Exposure (excl trailers) - policy | Written Premium | Average Written Premium | FARM Market Share (veh counts) | FARM Market Share (w prem) |
| IU | 2016 | 992 | 7,150 | 7,209 | - | 104,116 | n/a | - | 6.9 |
| IU | 2017 | 1,188 | 8,809 | 7,415 | - | 121,627 | n/a | - | 7.2 |
| IU | 2018 | 3,317 | 33,440 | 10,083 | - | 157,260 | n/a | - | 21.3 |
| IU | 2019 | 4,933 | 54,456 | 11,038 | - | 191,712 | n/a | - | 28.4 |
| IU | 2020 | 5,438 | 50,389 | 9,267 | - | 182,741 | n/a | - | 27.6 |
| | Total | 15,868 | 154,244 | 9,721 | - | 757,456 | n/a | - | 20.4 |



- Particular area of concern is the CV trend also applies to Interurban.
- Not only is the FA book growing, but so too is the premium deficiency for this class.
- Alberta IU Fleet is currently the main driver of the negative experience in IU.
- It is also has significant weight on the overall FARM rate inadequacy.

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

Conclusions

- There remains uncertainty as we emerge from the pandemic;
- FA supports the steps taken by AIRB to create a more flexible system and encourages Board to consider additional measures;
- Growth of the GRID-capped market and GRID RSP are at historical highs;
- AIRB must consider actions to address growth;
- Growth in CV and specifically IU is increasing concern for FA;
- Ratemaking is always a prospective exercise, and as such a range of reasonability approach remains FA's recommendation; and
- A healthy private sector insurance market is the best environment to provide Albertans with competition and choice.

Thank You