

# **Alberta Automobile Insurance Rate Board**

## **2010 Annual Review of Auto Insurance Premiums for Basic Coverage**

**June 15, 2010**

**David J. Simpson  
President & CEO**

# Agenda

- ❖ Introduction
- ❖ Risk Sharing Pools - Size
- ❖ Risk Sharing Pools - Financial Performance
- ❖ Financial Impact on the Industry
- ❖ Conclusion

## Alberta Risk Sharing Pools - Size

Transfer Limit - Based on Written Exposure

- Grid Pool None – but premium for the risk must be capped by the Grid to be eligible for the Pool
- Non-Grid Pool 4% of Exposures not ceded to the Grid Pool

Private Passenger Vehicles only

# Alberta Risk Sharing Pools - Size

Alberta Risk Sharing Pools – Market Share (Written Exposures)						
	Grid RSP		Non-Grid RSP		Total	
Year	W. Exp	Mkt Share	W. Exp	Mkt Share	W. Exp	Mkt Share
2006	164,643	8.6%	65,925	3.4%	230,568	12.0%
2007	153,649	7.3%	67,796	3.2%	221,445	10.5%
2008	134,700	6.1%	58,491	2.7%	193,191	8.8%
2009	112,921	5.2%	52,658	2.4%	165,579	7.6%

# Alberta Risk Sharing Pools - Size

Alberta Risk Sharing Pools – Market Share (Written Premium)						
	Grid RSP		Non-Grid RSP		Total	
Year	W. Prem	Mkt Share	W. Prem	Mkt Share	W. Prem	Mkt Share
2006	\$309,538,332	15.1%	\$71,004,099	3.5%	\$380,543,231	18.6%
2007	\$302,904,752	14.0%	\$79,473,967	3.7%	\$382,378,719	17.7%
2008	\$283,278,774	12.3%	\$65,363,541	2.8%	\$348,642,315	15.1%
2009	\$242,035,611	10.5%	\$75,053,630	3.3%	\$317,089,241	13.8%

## Top 6 Private Passenger Residual Market Jurisdictions in North America

	<u>Market Share</u>
Nunavut	48.4%
NWT	23.0%
North Carolina	21.6%
Alberta	7.9%
Nova Scotia	4.5%
New Brunswick	4.3%

# Alberta Risk Sharing Pools - Financial Results

<b>Alberta Risk Sharing Pools - Excess/(Deficiency) of Revenue over Expenses (\$'000)</b>			
<b>Period</b>	<b>Grid RSP</b>	<b>Non-Grid RSP</b>	<b>Combined</b>
2005 (13 months)	\$(93,902)	\$(28,038)	\$(121,940)
2006	\$8,498	\$(30,562)	\$(22,064)
2007	\$93,357	\$(9,422)	\$83,935
2008	\$(73,490)	\$(29,955)	\$(103,445)
2009	\$85,747	\$(9,184)	\$76,563
Total	\$20,210	\$(107,161)	\$(86,951)

## Impact of the Minor Injury Regulation Being Upheld

Grid RSP  $\approx$  65M

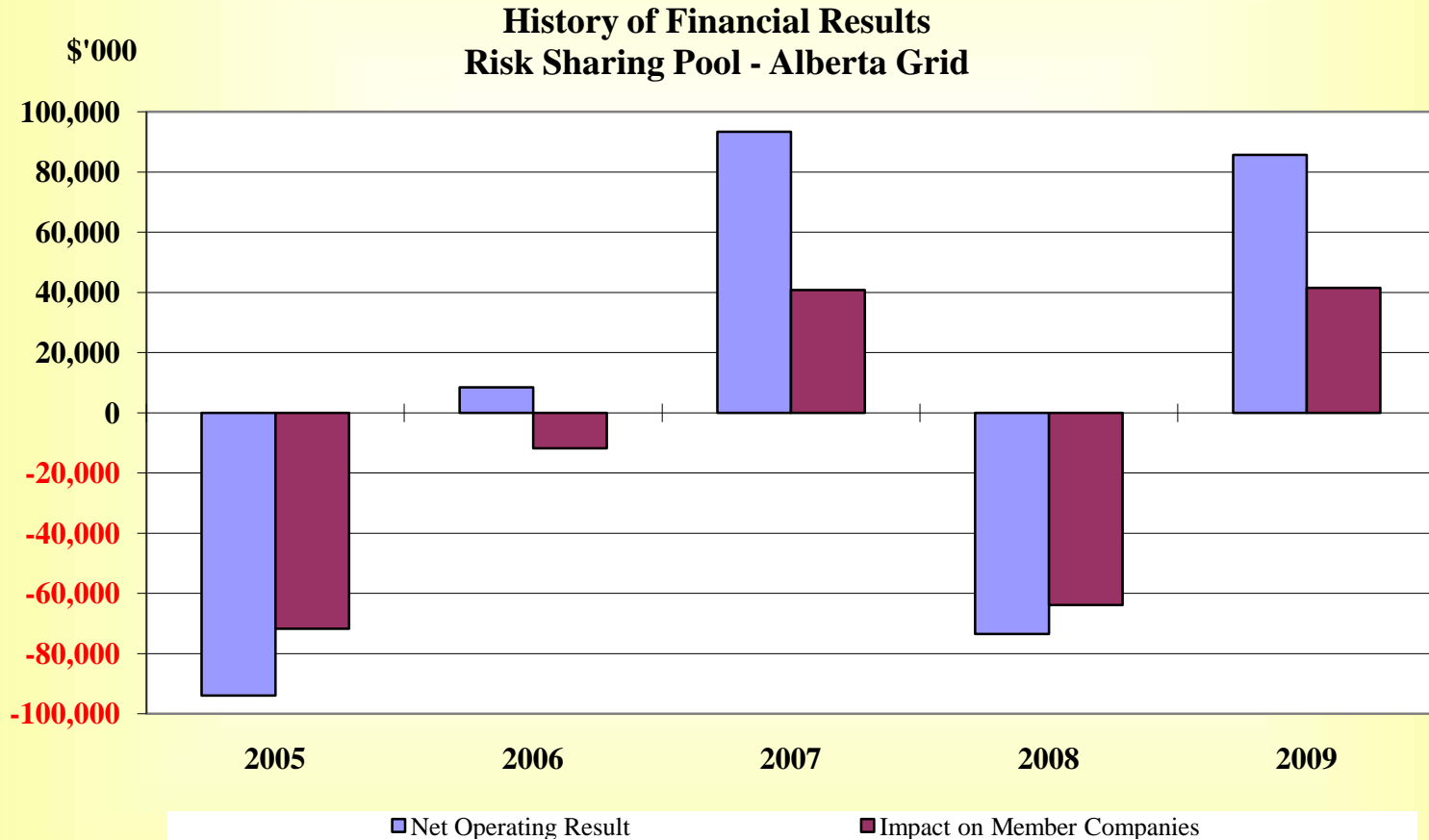
Non-Grid RSP  $\approx$  18 M

Residual Market Segment  
(Private Passenger)  $\approx$  6M

# Alberta Risk Sharing Pools – Loss Ratio

Alberta Risk Sharing Pools – Undiscounted Estimated Ultimate Loss Ratio (ELR)						
Period	----- Accident Year -----					
Grid RSP	2004	2005	2006	2007	2008	2009
As at Oct 31 2005	82.3%	82.5%				
As at Oct 31, 2006	69.2%	73.7%	76.3%			
As at Oct 31, 2007	51.7%	57.3%	65.5%	69.1%		
As at Oct 31, 2008	54.7%	60.0%	69.0%	75.1%	75.6%	
As at Oct 31, 2009	50.9%	57.4%	64.9%	68.8%	70.7%	67.5%
Non-Grid RSP	2004	2005	2006	2007	2008	2009
As at Oct 31 2005	173.7%	123.4%				
As at Oct 31, 2006	204.2%	107.8%	103.8%			
As at Oct 31, 2007	210.5%	94.0%	89.8%	100.0%		
As at Oct 31, 2008	242.4%	93.2%	88.8%	101.7%	107.2%	
As at Oct 31, 2009	340.9%	88.5%	84.5%	96.5%	101.4%	101.6%
<b>Industry**</b> <b>As at June 30, 2009</b>	Not comparable	50.0%	54.2%	59.2%	56.8%	56.7%

# Alberta Grid Risk Sharing Pool – Industry Impact



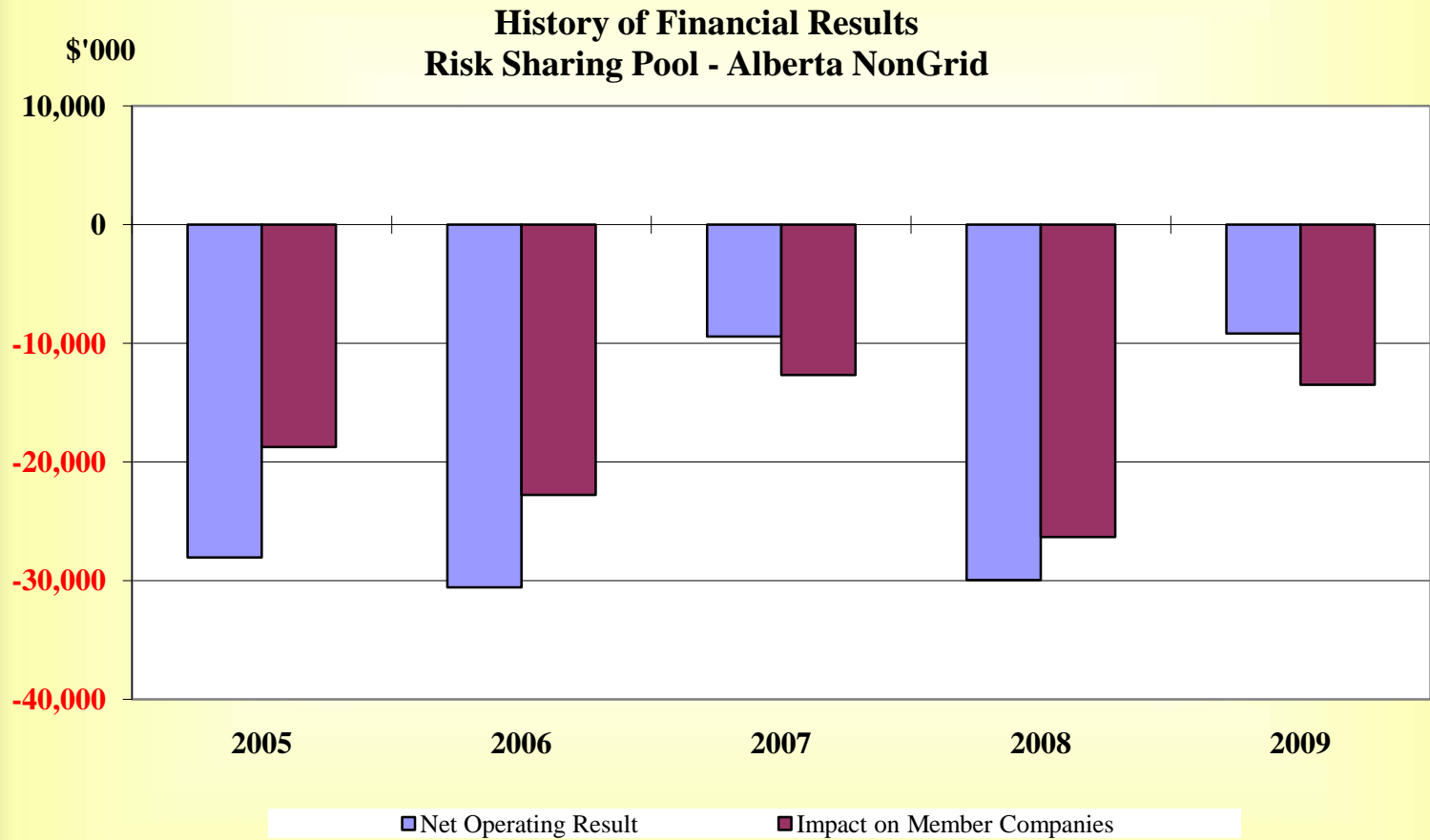
# Alberta Grid Risk Sharing Pool – Industry Impact

## ALBERTA RISK SHARING POOL SUMMARY OF OPERATIONS - INDUSTRY IMPACT FOR ILLUSTRATION PURPOSES (ADJUSTED OPERATING RESULT)

(Amounts in \$000's)

	GRID RSP					
	Total	Oct-09	Oct-08	Oct-07	Oct-06	Oct-05
<b>Net Operating Result</b> <i>(per Financial Statements)</i>	<b>\$20,210</b>	<b>\$85,747</b>	<b>(\$73,490)</b>	<b>\$93,357</b>	<b>\$8,498</b>	<b>(\$93,902)</b>
<b>Adjustments :</b>						
Premium Taxes Paid Directly by Members	-46,744	-7,491	-8,566	-9,291	-9,264	-12,132
Health Levies Paid Directly by Members	-45,371	-6,229	-9,172	-13,495	-10,291	-6,184
Discounting of policy liabilities	18,016	-13,793	-1,945	-1,533	15,117	20,170
Association Dues paid directly by members	-6,233	-999	-1,142	-1,239	-1,235	-1,618
Investment Income	102,166	26,328	31,923	22,724	15,250	5,941
Net Adjustment	21,834	-2,184	11,098	-2,834	9,577	6,177
<b>Adjusted Net Operating Result</b>	<b>42,044</b>	<b>83,563</b>	<b>-62,392</b>	<b>90,523</b>	<b>18,075</b>	<b>-87,725</b>
Income Tax on net Operating result	11,469	24,233	-18,406	29,058	6,077	-29,493
<b>Operating Result Before Cost of Capital</b>	<b>30,575</b>	<b>59,330</b>	<b>-43,986</b>	<b>61,465</b>	<b>11,998</b>	<b>-58,232</b>
Deemed after tax Cost of Capital	95,554	17,841	19,841	20,617	23,774	13,481
<b>Combined Net Operating result</b>	<b>(\$64,979)</b>	<b>\$41,489</b>	<b>(\$63,827)</b>	<b>\$40,848</b>	<b>(\$11,776)</b>	<b>(\$71,713)</b>

# Alberta Non-Grid Risk Sharing Pool – Industry Impact



# Alberta Non-Grid Risk Sharing Pool – Industry Impact

## ALBERTA RISK SHARING POOL SUMMARY OF OPERATIONS - INDUSTRY IMPACT FOR ILLUSTRATION PURPOSES (ADJUSTED OPERATING RESULT)

(Amounts in \$000's)

	NON-GRID RSP					
	Total	Oct-09	Oct-08	Oct-07	Oct-06	Oct-05
<b>Net Operating Result</b> <i>(per Financial Statements)</i>	<b>(\$107,161)</b>	<b>(\$9,184)</b>	<b>(\$29,955)</b>	<b>(\$9,422)</b>	<b>(\$30,562)</b>	<b>(\$28,038)</b>
<b>Adjustments :</b>						
Premium Taxes Paid Directly by Members	-10,320	-2,226	-2,094	-2,134	-2,674	-1,192
Health Levies Paid Directly by Members	-9,526	-1,552	-1,878	-2,789	-2,741	-566
Discounting of policy liabilities	5,586	-2,834	-1,282	169	6,379	3,154
Association Dues paid directly by members	-1,377	-297	-279	-285	-357	-159
Investment Income	15,000	3,861	4,821	3,657	2,095	566
Net Adjustment	<u>-637</u>	<u>-3,048</u>	<u>-712</u>	<u>-1,382</u>	<u>2,702</u>	<u>1,803</u>
<b>Adjusted Net Operating Result</b>	<b>-107,798</b>	<b>-12,232</b>	<b>-30,667</b>	<b>-10,804</b>	<b>-27,860</b>	<b>-26,235</b>
Income Tax on net Operating result	<u>-34,249</u>	<u>-3,547</u>	<u>-9,047</u>	<u>-3,468</u>	<u>-9,367</u>	<u>-8,820</u>
<b>Operating Result Before Cost of Capital</b>	<b>-73,549</b>	<b>-8,685</b>	<b>-21,620</b>	<b>-7,336</b>	<b>-18,493</b>	<b>-17,415</b>
Deemed after tax Cost of Capital	20,461	4,800	4,698	5,342	4,296	1,325
<b>Combined Net Operating result</b>	<b><u>(\$94,010)</u></b>	<b><u>(\$13,485)</u></b>	<b><u>(\$26,318)</u></b>	<b><u>(\$12,678)</u></b>	<b><u>(\$22,789)</u></b>	<b><u>(\$18,740)</u></b>

## Potential Market Consequences

### Risk:

- Large potentially volatile Pools reduce 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

## Potential Market Consequences

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

## Preferred Outcomes

- Smaller Risk Sharing Pools
- Mitigates volatility impacts
- Consumers benefit from competitive market and market stability

## Achieve Outcomes By

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

# **Alberta Automobile Insurance Rate Board**

## **2010 Annual Review of Auto Insurance Premiums for Basic Coverage**

**June 15, 2010**

**David J. Simpson  
President & CEO**