

# **Alberta Automobile Insurance Rate Board**

## **2011 Annual Review of Auto Insurance Premiums for Basic Coverage**

**June 14, 2011**

# 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
- ❖ Financial Impact on the Industry
- ❖ Conclusion

# Facility Association in Alberta

## Residual Market Segment

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

## Risk Sharing Pools (RSPs)

- Private Passenger only
- Grid and Non-Grid Pools

# Facility Association in Alberta

## Residual Market Segment Risks

- Written at rates approved for the segment

## Risk Sharing Pools 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 Pools are governed by the Plan of Operation as authorized by the Superintendent.

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

## Alberta Risk Sharing Pools - Size

### Grid Pool

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

### Non-Grid Pool

- limited to 4% of written exposures not ceded to the Grid Pool

Private Passenger Vehicles only

## Alberta Risk Sharing Pools - Size

| Alberta Risk Sharing Pools – Market Share (Written Premium Basis) |               |           |               |           |              |           |
|---|---------------|-----------|---------------|-----------|--------------|-----------|
|   | Total         |           | Grid RSP      |           | Non-Grid RSP |           |
| Year  | W. Prem       | Mkt Share | W. Prem       | Mkt Share | W. Prem      | Mkt Share |
| 2006  | \$380,543,231 | 18.6%     | \$309,538,332 | 15.1%     | \$71,004,099 | 3.5%      |
| 2007  | \$382,378,719 | 17.7%     | \$302,904,752 | 14.0%     | \$79,473,967 | 3.7%      |
| 2008  | \$348,642,315 | 15.1%     | \$283,278,774 | 12.3%     | \$65,363,541 | 2.8%      |
| 2009  | \$317,089,241 | 13.8%     | \$242,035,611 | 10.5%     | \$75,053,630 | 3.3%      |
| 2010  | \$278,161,214 | 11.5%     | \$203,185,486 | 8.4%      | \$74,975,728 | 3.1%      |

# Alberta Risk Sharing Pools - Size

| Alberta Risk Sharing Pools – Market Share (Written Exposure Basis) |         |           |          |           |              |           |
|--|---------|-----------|----------|-----------|--------------|-----------|
|  | Total   |           | Grid RSP |           | Non-Grid RSP |           |
| Year   | W. Exp  | Mkt Share | W. Exp   | Mkt Share | W. Exp       | Mkt Share |
| 2006   | 230,568 | 12.0%     | 164,643  | 8.6%      | 65,925       | 3.4%      |
| 2007   | 221,445 | 10.3%     | 153,649  | 7.1%      | 67,796       | 3.2%      |
| 2008   | 193,191 | 8.8%      | 134,700  | 6.1%      | 58,491       | 2.7%      |
| 2009   | 165,579 | 7.6%      | 112,921  | 5.2%      | 52,658       | 2.4%      |
| 2010   | 153,661 | 6.7%      | 98,384   | 4.4%      | 55,277       | 2.5%      |

# Top 6 Private Passenger Residual Market Jurisdictions in North America

|                            | <u>Market Share</u> |
|----------------------------|---------------------|
| Nunavut                    | 47.1%               |
| North West Territories     | 21.5%               |
| North Carolina             | 20.5% <sup>1</sup>  |
| Alberta (RSP & FARM)       | 7.2%                |
| New Brunswick (RSP & FARM) | 4.0%                |
| Newfoundland & Labrador    | 3.5%                |

<sup>1</sup> Source: Insurance Information Institute (U.S.A.) data is for 2008

# Alberta Risk Sharing Pools – Loss Ratio

| Period              | ----- Accident Year ----- |        |        |        |        |       |
|---------------------|---------------------------|--------|--------|--------|--------|-------|
|                     | 2005                      | 2006   | 2007   | 2008   | 2009   | 2010  |
| <b>Grid RSP</b>     |                           |        |        |        |        |       |
| as at Oct 31 2006   | 73.7%                     | 76.3%  |        |        |        |       |
| as at Oct 31, 2007  | 57.3%                     | 65.6%  | 69.1%  |        |        |       |
| as at Oct 31, 2008  | 60.0%                     | 69.0%  | 75.1%  | 75.6%  |        |       |
| as at Oct 31, 2009* | 57.4%                     | 64.9%  | 68.8%  | 70.7%  | 67.5%  |       |
| as at Oct 31, 2010  | 57.2%                     | 64.4%  | 67.9%  | 64.7%  | 61.1%  | 60.8% |
| <b>Non-Grid RSP</b> |                           |        |        |        |        |       |
| as at Oct 31 2006   | 107.8%                    | 103.8% |        |        |        |       |
| as at Oct 31, 2007  | 94.0%                     | 89.8%  | 100.0% |        |        |       |
| as at Oct 31, 2008  | 93.2%                     | 88.8%  | 101.7% | 107.2% |        |       |
| as at Oct 31, 2009* | 88.5%                     | 84.5%  | 96.5%  | 101.4% | 101.6% |       |
| as at Oct 31, 2010  | 90.2%                     | 81.3%  | 94.8%  | 100.9% | 94.6%  | 92.6% |
| <b>Industry**</b>   |                           |        |        |        |        |       |
| as at June 30 2009  | 50.0%                     | 54.2%  | 59.2%  | 56.8%  | 56.7%  |       |
| as at June 30 2010  | 49.3%                     | 53.5%  | 59.0%  | 56.6%  | 52.5%  | 49.3% |

# Alberta Risk Sharing Pools - Financial Results

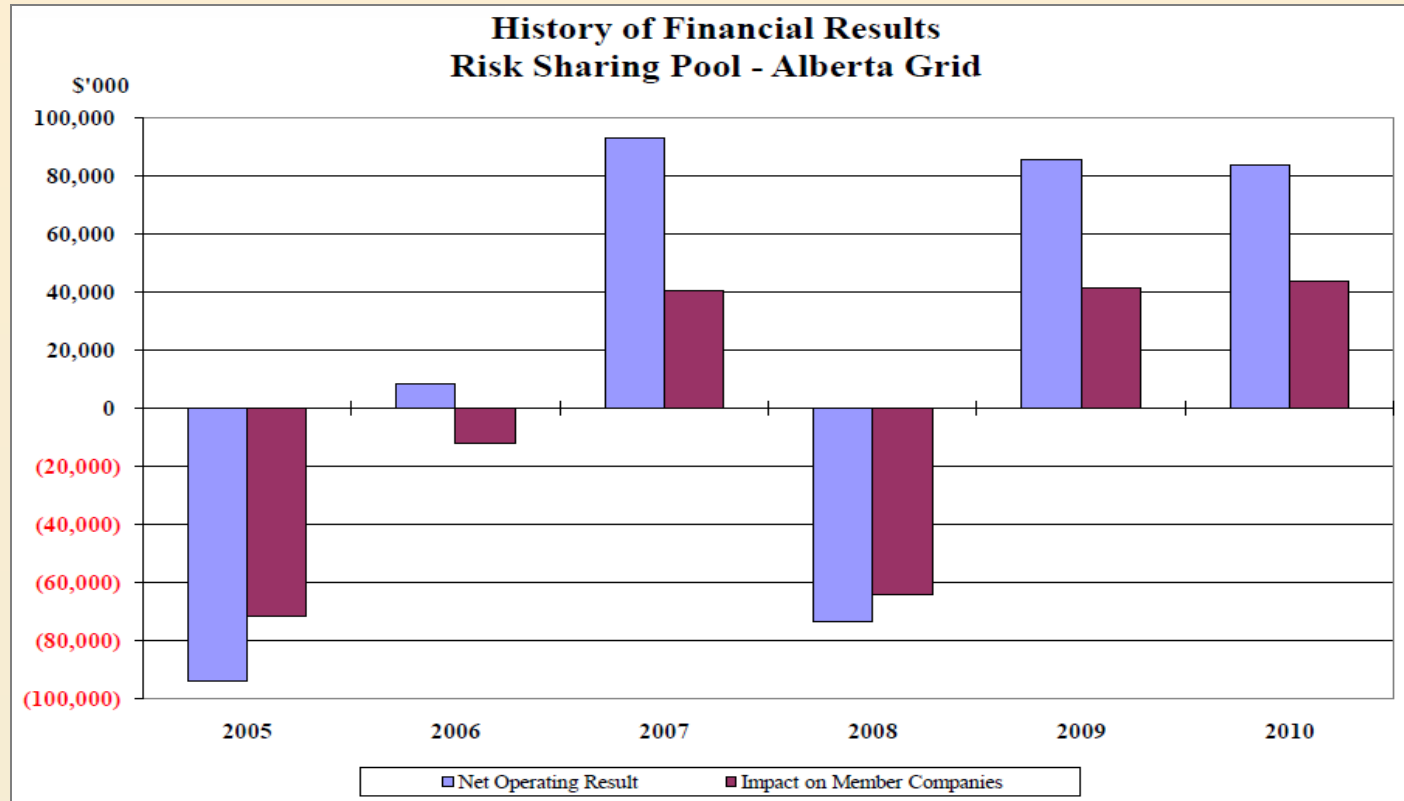
| <b>Alberta Risk Sharing Pools - Excess/(Deficiency) of Revenue over Expenses (\$'000)</b> |                  |                     |                  |
|---|------------------|---------------------|------------------|
| <b>Fiscal Year</b>  | <b>Grid RSP</b>  | <b>Non-Grid RSP</b> | <b>Combined</b>  |
| 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         |
| 2010  | \$83,893         | (\$1,114)           | \$82,779         |
| <b>Total</b>  | <b>\$104,103</b> | <b>(\$108,275)</b>  | <b>(\$4,172)</b> |

# 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)

|  | <b>GRID RSP</b>          |                        |                        |                          |                        |                          |                          |
|--|--------------------------|------------------------|------------------------|--------------------------|------------------------|--------------------------|--------------------------|
|  | <b><u>Total</u></b>      | <b><u>Oct-10</u></b>   | <b><u>Oct-09</u></b>   | <b><u>Oct-08</u></b>     | <b><u>Oct-07</u></b>   | <b><u>Oct-06</u></b>     | <b><u>Oct-05</u></b>     |
| <b>Net Operating Result</b><br><i>(per Financial Statements)</i> | <b>\$104,103</b>         | <b>\$83,893</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                           | -52,884                  | -6,140                 | -7,491                 | -8,566                   | -9,291                 | -9,264                   | -12,132                  |
| Health Levies Paid Directly by Members                           | -51,851                  | -6,480                 | -6,229                 | -9,172                   | -13,495                | -10,291                  | -6,184                   |
| Discounting of policy liabilities                                | 9,898                    | -8,118                 | -13,793                | -1,945                   | -1,533                 | 15,117                   | 20,170                   |
| Association Dues paid directly by members                        | -7,052                   | -819                   | -999                   | -1,142                   | -1,239                 | -1,235                   | -1,618                   |
| Investment Income  | 121,981                  | 19,815                 | 26,328                 | 31,923                   | 22,724                 | 15,250                   | 5,941                    |
| Net Adjustment   | <u>20,092</u>            | <u>-1,742</u>          | <u>-2,184</u>          | 11,098                   | <u>-2,834</u>          | 9,577                    | 6,177                    |
| <b>Adjusted Net Operating Result</b>                             | 124,195                  | 82,151                 | 83,563                 | <b>-62,392</b>           | 90,523                 | 18,075                   | <b>-87,725</b>           |
| Income Tax on net Operating result                               | <u>34,471</u>            | <u>23,002</u>          | <u>24,233</u>          | <u>-18,406</u>           | <u>29,058</u>          | <u>6,077</u>             | <u>-29,493</u>           |
| <b>Operating Result Before Cost of Capital</b>                   | 89,724                   | 59,149                 | 59,330                 | <b>-43,986</b>           | 61,465                 | 11,998                   | <b>-58,232</b>           |
| Deemed after tax Cost of Capital                                 | 110,699                  | 15,145                 | 17,841                 | 19,841                   | 20,617                 | 23,774                   | 13,481                   |
| <b>Combined Net Operating result</b>                             | <b><u>(\$20,975)</u></b> | <b><u>\$44,004</u></b> | <b><u>\$41,489</u></b> | <b><u>(\$63,827)</u></b> | <b><u>\$40,848</u></b> | <b><u>(\$11,776)</u></b> | <b><u>(\$71,713)</u></b> |

# Alberta Grid Risk Sharing Pool – Industry Impact



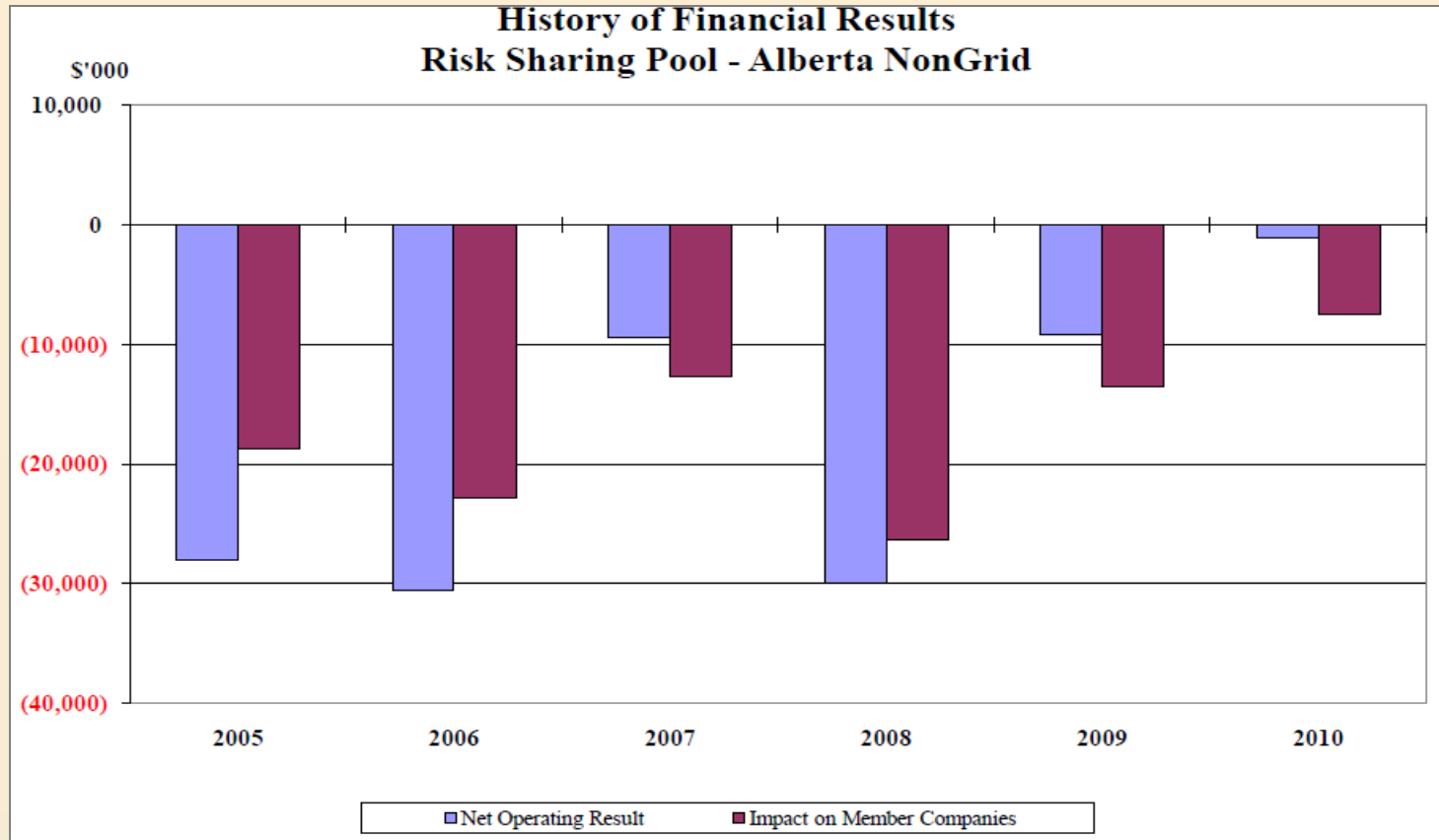
# Alberta Non-Grid Risk Sharing Pool – Industry Impact

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

(Amounts in \$000's)

|  | NON-GRID RSP              |                         |                          |                          |                          |                          |                          |
|--|---------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|  | <u>Total</u>              | <u>Oct-10</u>           | <u>Oct-09</u>            | <u>Oct-08</u>            | <u>Oct-07</u>            | <u>Oct-06</u>            | <u>Oct-05</u>            |
| <b>Net Operating Result</b><br><i>(per Financial Statements)</i> | <b>(\$108,275)</b>        | <b>(\$1,114)</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                           | -12,484                   | -2,164                  | -2,226                   | -2,094                   | -2,134                   | -2,674                   | -1,192                   |
| Health Levies Paid Directly by Members                           | -11,415                   | -1,889                  | -1,552                   | -1,878                   | -2,789                   | -2,741                   | -566                     |
| Discounting of policy liabilities                                | 4,493                     | -1,093                  | -2,834                   | -1,282                   | 169                      | 6,379                    | 3,154                    |
| Association Dues paid directly by members                        | -1,666                    | -289                    | -297                     | -279                     | -285                     | -357                     | -159                     |
| Investment Income  | 17,966                    | 2,966                   | 3,861                    | 4,821                    | 3,657                    | 2,095                    | 566                      |
| Net Adjustment   | <u>-3,106</u>             | <u>-2,469</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>-111,381</b>           | <b>-3,583</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>-35,252</u>            | <u>-1,003</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>-76,129</b>            | <b>-2,580</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                                 | 25,339                    | 4,878                   | 4,800                    | 4,698                    | 5,342                    | 4,296                    | 1,325                    |
| <b>Combined Net Operating result</b>                             | <b><u>(\$101,468)</u></b> | <b><u>(\$7,458)</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> |

# Alberta Non-Grid Risk Sharing Pool – Industry Impact



## 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

## Preferred Outcomes

- 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

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