



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

**ATTENTION: CHIEF EXECUTIVE OFFICER**

**BULLETIN NO.: F18 - 052**

**DATE: July 11, 2018**

**SUBJECT: ALBERTA NON-GRID RISK SHARING POOL TRANSFER LIMIT**

Members are advised that at its June, 2018 meeting, the Facility Association Board of Directors (“Board”) took note of the increased projected transfers to the Alberta Non-Grid Risk Sharing Pool (“Non-Grid RSP”) for the remainder of 2018.

Following the meeting, a letter was sent on behalf of the Board to Alberta Superintendent of Insurance, Nilam Jetha, stating in part:

“...the Facility Association Board of Directors devoted a significant amount of time at the June 7<sup>th</sup>, Board meeting to dialogue on whether or not to increase the transfer limit of the Non-Grid RSP. Under the Plan of Operation, the Board has the authority to both increase the transfer limit of the Non-Grid RSP in its entirety or to increase the transfer limit for an individual member company.

While acknowledging that current cost pressures and pricing limitations could manifest themselves as availability issues for consumers, the Board has decided not to increase the transfer limit for the Non-Grid RSP at this time. The Board is of the view that such a measure would only serve to “mask” the underlying cost issues. The Board is also of the view that it is in the best interests of Alberta automobile insurance consumers that those issues be dealt with in a meaningful way. The Board will review requests for increased transfer limits from individual companies through the prescribed process.”

The Superintendent has responded stating, in part:

“As you know, one of Government's top priorities is ensuring the cost of living in Alberta remains affordable. In the coming weeks, we will be issuing a Request for Proposals seeking an independent contractor to work with Treasury Board and Finance to conduct a detailed study on claims and costs. A holistic review of the insurance industry will help ensure that Alberta's insurance system remains sustainable, affordable, accessible and fair.

Please keep my office apprised of any further developments affecting the Alberta Non-Grid RSP. In the event the Facility Association grants a company's request for an increase to their transfer limit, I ask that you notify my office including the name of the company, the amount of the increase, and the period for which the increase is granted.”

**Bulletin: F18 - 052**  
**Alberta Non-Grid Risk Sharing Pool Transfer Limit**

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Please find complete copies of both letters attached to this bulletin. For further information, please contact me directly at 416-644-4915, [dsimpson@facilityassociation.com](mailto:dsimpson@facilityassociation.com)

David J. Simpson, M.B.A., FCIP, C. Dir.  
President & CEO

Attach.



777 Bay Street, Suite 2400 T: 416 863 1750  
P.O. Box 121 F: 416 868 0894  
Toronto, Ontario E: [mail@facilityassociation.com](mailto:mail@facilityassociation.com)  
M5G 2C8

June 28, 2018

Ms. Nilam Jetha  
Acting Assistant Deputy Minister  
Alberta Treasury Board & Finance  
Financial Sector Regulation and Policy and  
Superintendent of Insurance  
Superintendent of Pensions and Financial Institutions  
#432, Terrace Building, 9515 -107 Street  
Edmonton, Alberta T5K 2C3

*Delivered via email: [nilam.jetha@gov.ab.ca](mailto:nilam.jetha@gov.ab.ca)*

Dear Ms. Jetha:

I am writing to you on behalf of the Facility Association Board of Directors (Board) about the increased volumes we are projecting to see in the Alberta Non-Grid Risk Sharing Pool (RSP) in 2018. We discussed this informally when Shawn Doherty, Colin George, and I met with you and your staff at Edmonton on April 27<sup>th</sup>.

The Non-Grid RSP was established in 2004 as a response to the implementation of a “take all comers” environment for private passenger automobile insurance in Alberta. That is, companies were (and are) required by law to accept the vast majority of private passenger automobile insurance applications they receive. In a competitive market, most insurers tend not to target the entire universe of private passenger automobile risks. Insurers generally each have their areas of expertise and a healthy competitive marketplace tends to allow a proper mix of generalist and specialist/niche private passenger automobile writers. Moreover, because it is a practical impossibility to have a perfect price for every risk, most insurers choose to have risk eligibility rules to complement and protect their respective pricing structures. An underwriter faced with a requirement to accept a greater degree of risk than that contemplated by the company’s classification system and rates can transfer that risk to the Non-Grid RSP. Stated simply, companies transfer risks to an RSP which they believe to be underpriced. Rising volumes in an RSP (whether actual or projected) are an indication that companies perceive more of the risks they are required to accept to be underpriced.

The Non-Grid RSP has a transfer limit of 4% of private passenger exposures not transferred to the Grid RSP (this is a colloquial definition; please see Appendix A for the precise definition found in our Plan of Operation). The transfer limit is at the group level (i.e. not at the individual company level within the overall group).

The 2018 “Outlook” for the Non-Grid RSP that was distributed to our members and regulators via our bulletin process on October 3<sup>rd</sup>, 2017, projected that 63,278 exposures would be transferred to the Non-Grid RSP. Our current projection (as at April 30, 2018), based largely on information we

*Cont’d....*



have received from member companies, is for 81,593 exposures to be transferred by yearend 2018. This represents 76.7% of our current estimate of the total transfer limit of approximately 106,400 exposures.

At the company group level, 18 member company groups actively transfer risks to the Alberta Non-Grid RSP, but our projection process focuses only on the 14 largest, accounting for over 99% of projected transfers. With respect to the current (April 2018) year-end 2018 projections for the 14 largest users:

- 4 are projecting to use more than 90% of their limit
- 2 are projecting to use between 80% and 90% of their limit
- 4 are projecting to use between 70% and 80% of their limit

The remaining 4 are projecting to use less than 70% of their limit by the end of 2018.

From a financial standpoint, the current projected operating deficit for calendar year 2018 for the Non-Grid RSP is \$48.6 million. The current Combined Operating Ratio (COR) projection for calendar year 2018 is 143.5%; excluding prior accident year impacts, the projected COR for 2018 is 152%. That is, for every dollar of additional premium volume (everything else being equal), the operating deficit increases by 50 cents. From a member company perspective, the financial impacts will vary. A Risk Sharing Pool is a “zero sum game” and member companies are required to share in the results we provide to them. It is also important to note that although (broadly speaking) the results of the RSP are shared on a market share basis, some member companies will be less able than others to absorb larger RSP losses.

At this point, we do not know if, or to what extent, the Clarification of the Minor Injury Regulation issued in May, 2018, may have on insurers’ views of the rate adequacy of their private passenger automobile insurance business in the province, or on the financial results of the Non-Grid RSP.

We do believe that the current increase in the projected use of the Non-Grid RSP is a response to the imposed 5% rate increase limitation on private passenger automobile insurance rates following the issuance of Ministerial Order No. 25/2017 issued on December 4<sup>th</sup>, 2017, given that industry-wide lost costs are increasing at a higher rate.

Noting the projected increase in the Non-Grid RSP volumes, the Facility Association Board of Directors devoted a significant amount of time at the June 7<sup>th</sup>, Board meeting to dialogue on whether or not to increase the transfer limit of the Non-Grid RSP. Under the Plan of Operation, the Board has the authority to both increase the transfer limit of the Non-Grid RSP in its entirety or to increase the transfer limit for an individual member company.

While acknowledging that current cost pressures and pricing limitations could manifest themselves as availability issues for consumers, the Board has decided not to increase the transfer limit for the Non-Grid RSP at this time. The Board is of the view that such a measure would only serve to “mask” the underlying cost issues. The Board is also of the view that it is in the best interests of



Alberta automobile insurance consumers that those issues be dealt with in a meaningful way. The Board will review requests for increased transfer limits from individual companies through the prescribed process.

I would be pleased to discuss the above in greater detail with you and your staff at any time.

Yours truly,

A handwritten signature in black ink, appearing to read 'David J. Simpson'.

David J. Simpson, M.B.A., FCIP, C. Dir.  
President & CEO

Attach.

c.c.: George Hardy, Facility Association Board Chair



## Appendix A

### Transfer Limit Definition/Alberta Non-Grid RSP

#### Plan of Operation Article XI.2 – ALBERTA RISK SHARING POOL

10. A member may not in a calendar year in which the Alberta Pool is operating, transfer to the Alberta Pool any Non-Grid Risk where such transfer would constitute a transfer by it in such calendar year of voluntary private passenger non-fleet third party liability direct written car years in excess of the number of such car years equal to a percentage as set by the Board by resolution from time to time of the number of its total voluntary private passenger non-fleet third party liability direct written car years for such jurisdiction in the immediately preceding calendar year less the number of grid risk private passenger non-fleet third party liability direct written car years ceded to the Alberta Pool by it in the same period and provided that:
  - (a) any purported transfer in contravention of such restriction shall be ineffective and the risk shall remain solely for the account of the member purporting to effect the transfer unless authorized as hereinafter set out;
  - (b) a member may apply to the Board for approval of transfers in excess of such limit. Such approval may be given retroactively and in such form as the Board deems advisable.

The limit at the inception of the Alberta Pool shall be 4%.

July 5, 2018

Mr. David J. Simpson  
President and CEO  
Facility Association  
777 Bay Street, Suite 2400  
Toronto, ON M5G 2C8

Dear Mr. Simpson:

Thank you for your letter of June 28, 2018, sharing the Facilities Association's concerns over an anticipated increase in volumes in the Alberta Non-Grid Risk Sharing Pool (RSP).

I appreciate you informing with me that, while the Facility Association Board of Directors (Board) has considered current cost pressures and pricing limitations, the Board has elected to maintain the transfer limit for the Non-Grid RSP at this time. I also appreciate the Board's commitment to review any requests by individual insurance companies to increase their transfer limits to the Alberta Non-Grid RSP. I expect that any grid transfer increase would be provided on a temporary basis, and the term would be defined at the time the increase is approved.

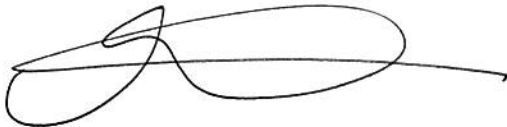
The Minor Injury Regulation (Regulation) was amended to provide greater clarity to industry and to Albertans regarding which injuries are covered under the Regulation and which are not. We are optimistic that the amendment will alleviate some of the cost pressures insurers are facing, while still ensuring Albertans injured in automobile accidents receive appropriate treatment for their injuries under the Diagnostic Treatment and Protocols Regulation. Going forward, my department will continue to work with stakeholders to assess the benefits of the Regulation clarification in addressing industry's cost pressures.

As you know, one of Government's top priorities is ensuring the cost of living in Alberta remains affordable. In the coming weeks, we will be issuing a Request for Proposals seeking an independent contractor to work with Treasury Board and Finance to conduct a detailed study on claims and costs. A holistic review of the insurance industry will help ensure that Alberta's insurance system remains sustainable, affordable, accessible and fair.

Please keep my office apprised of any further developments affecting the Alberta Non-Grid RSP. In the event the Facility Association grants a company's request for an increase to their transfer limit, I ask that you notify my office including the name of the company, the amount of the increase, and the period for which the increase is granted. The Deputy Superintendent of Insurance, Mr. David Sorensen, can be reached through email at [David.Sorensen@gov.ab.ca](mailto:David.Sorensen@gov.ab.ca), or by phone at 780-427-8896.

Thank you again for writing.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line that tapers to the right.

Ms. Nilam Jetha  
Superintendent of Insurance

cc: George Hardy  
Facility Association Board Chair